Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo

Financial Statements

December 31, 2018 and 2017

(With Independent Auditors´ Report Thereon)

(Translation from Spanish Language Original)

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Independent Auditors' Report

(Translation from Spanish Language Original)

The Board of Directors
Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo

(Millions of pesos)

Opinion

We have audited the financial statements of Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo (the Bank), which comprise the balance sheets as of December 31, 2018 and 2017, the statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo have been prepared, in all material respects, in accordance with the Accounting Criteria for Credit Institutions in Mexico (the Accounting Criteria), issued by the National Banking and Securities Commission (the Commission).

Basis for opinion

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

Emphasis paragraph - comparative information

We draw attention to the fact that, on February 23, 2018, we issued our unmodified opinion for the financial statements of the Bank as of December 31, 2017. As described in note 12 to the financial statements, during 2018, the Bank adopted new risk measurements in the Comprehensive Risk Management Manual for the constitution of additional allowance for loan losses, which mainly affected the private sector project's loan portfolio on construction phase.

The effect of the aforementioned change in the specific standard affected the year 2017, in the captions Allowance for loan losses and Net income for $2,215, which was recognized with retrospective effects, as required by Mexican Financial Reporting Standard B-1 “Accounting Changes and Error Corrections”. As a result of the foregoing, as described in note 3 to the financial statements, the balance sheet and income statement as of and for the year ended December 31, 2017, were restated. Our opinion is not modified in respect of this matter.

Key audit matters

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

Allowance for loan losses $10,732

(See notes 2m and 12 to the financial statements)

Key audit matter	How the matter was addressed in our audit
The allowance for loan losses is complex, of mainly due to involvement of assessment of several factors established in the methodologies prescribed by the Commission for the commercial loans risk rating, as well as reliability of the documentation and update of the information that serves as an input for determining the allowance for loan losses.	The audit procedures applied to Management determination of the allowance for loan losses and its effect on the year’s results, included the assessment, through the participation of our specialists over selective tests, both of the inputs used as the determination methodologies to the commercial loan portfolio based on the in force methodologies established by the Commission.

OTC Derivative financial instruments and hedging transactions for $24,995 in assets and $11,548 in liabilities.

Key audit matter	How the matter was addressed in our audit
The fair value determination, at the balance sheet date, of the OTC’ derivative financial instruments and hedging transactions is carried out through the use of valuation methodologies selected by Management, which involve a high degree of complexity, mainly when the use of inputs obtained from different sources is required. Additionally, the requirements that must be met for the accounting of financial instruments as hedges, as well as documentation and monitoring to prove their effectiveness, involve a high degree of specialization by the Management.	As part of our audit procedures, we obtained evidence of approval, by the Bank´s Risk Committee, of the valuation models for derivative financial instruments and hedge operations used by Management. Also, through selective tests, we evaluate the reasonableness of these models and the inputs used through the participation of our specialists. Additionally, through selective tests, we evaluate the adequate determination of the fair value of derivative products and hedging transactions, the adequate compliance with the criteria and documentation to be considered and their effectiveness.

Responsibilities of Management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements in accordance with the Accounting Criteria set forth by the Commission, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

We also provide to those charged with governance of the entity a statement that we have complied with the applicable ethical requirements regarding independence and that we have communicated to them all the relationships and other matters that can reasonably be expected to affect our independence and, where appropriate, the corresponding safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and therefore the key audit matters. We describe these matters in our auditors' report unless law or regulations prohibit public disclosure of the matter or, in extremely rare circumstances, we determine that a matter should not be communicated in our report as it could be reasonably expected that the adverse consequences thereof would excised its public interest benefits.

KPMG Cárdenas Dosal, S. C.

Jorge Orendain Villacampa

Mexico City, March 13, 2019.

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO

Balance sheets

December 31, 2018 and 2017

These financial statements have been translated from the Spanish language original and for the convenience of foreign/English-speaking readers.

(Amounts in millions of Mexican pesos)
(Notes 1, 2 and 3)

Assets	**2018**	2017
Cash and cash equivalents (Note 6)	**$ 13,747**	$ 16,616
Investment securities (Note 7)		
Trading	**336,140**	301,429
Available-for-sale	**11,437**	3,464
Held to maturity	**18,064**	11,474
	365,641	316,367
Debtors on repurchase/resale agreements (Note 8)	**210**	2,270
Derivatives (Note 9)		
Trading	**12,962**	6,213
Hedging	**12,033**	17,398
	24,995	23,611
Valuation adjustment for financial asset hedges (Note 10)	**(555)**	(694)
Current loan portfolio		
Commercial loans		
Business and commercial	**123,257**	113,397
Financial institutions	**27,966**	31,836
Government entities	**279,250**	246,154
Residential mortgages		
Medium class and residential	**80**	89
Loans granted as financial agent of the Federal Government	**581**	673
Total current loan portfolio	**431,134**	392,149
Past-due loan portfolio		
Commercial loans		
Business and commercial	**2,301**	2,242
Consumer loans	**9**	9
Residential mortgages		
Medium class and residential	**41**	46
Total past-due loan portfolio	**2,351**	2,297
Loan portfolio (Note 11)	**433,485**	394,446
Allowance for loan losses (Note 12)	**10,732**	10,267
Total loan portfolio, net	**422,753**	384,179
Other accounts receivable, net (Note 13)	**8,889**	9,831
Balance as the agent of the State and Municipal Support Fund (Note 13)	**218**	253
Foreclosed assets, net	**20**	23
Property, furniture and equipment, net (Note 14)	**542**	551
Permanent investments (Note 15)	**74**	74
Other assets (Note 16)		
Deferred charges, prepaid expenses and intangibles	**378**	691
Other short- and long-term assets (Note 16)	**6,113**	6,192
	6,491	6,883
Total assets	**$ 843,025**	$ 759,964

Liabilities	**2018**	2017
Deposit funding (Note 17)		
Time deposit		
Money market	**$ 285,750**	$ 232,652
Debt securities issued	**99,774**	130,375
	385,524	363,027
Interbank loans and other borrowings (Note 18)		
Due on demand	**2,363**	865
Short-term	**16,693**	11,542
Long-term	**20,652**	21,737
	39,708	34,144
Creditors under security repurchase agreements (Note 8)	**333,146**	290,022
Derivatives (Note 9)		
Trading	**7,131**	7,538
Hedging	**4,417**	3,255
	11,548	10,793
Other accounts payable		
Income tax payable (Note 19)	**108**	151
Employee statutory profit sharing (ESPS) payable (Note 2t)	**292**	368
Creditors for settlement of transactions	**166**	531
Creditors on collateral securities received in cash (Note 9)	**5,862**	4,684
Sundry creditors and other accounts payable (Note 20)	**5,316**	6,613
	11,744	12,347
Taxes and deferred employee profit sharing, net (Note 19)	**693**	604
Deferred credits and prepayments	**5,616**	3,187
Total liabilities	**787,979**	714,124
Commitments and contingent liabilities (Note 22)		
Stockholders' equity (Note 23)		
Paid-in capital		
Capital stock	**17,604**	16,736
Contributions for future capital increases made by the Federal Government	**7,585**	3,075
Premium on subscription of capital contribution certificates	**7,004**	4,797
	32,193	24,608
Earned capital		
Statutory reserves	**5,007**	4,596
Retained earnings	**15,898**	14,537
Unrealized loss from valuation of available-for-sale securities (Note 7b)	**(963)**	(77)
Unrealized gain from valuation of cash flow hedge derivatives	**65**	67
Remeasurements of employees' defined benefits	**747**	213
Net income	**2,099**	1,896
	22,853	21,232
Total stockholders' equity	**55,046**	45,840
Total liabilities and stockholders' equity	**$ 843,025**	$ 759,964

Memorandum accounts

	2018	**2017**
Guarantees granted	**$ 1,179**	$ 1,180
Contingent assets and liabilities (Note 22c)	**17,348**	32,323
Credit commitments (Note 22d)	**45,221**	53,872
Assets in trust or under mandate (Note 29):		
Trust	**489,005**	436,685
Management trust for Banobras' retiree pension plan	**21,664**	20,956
Mandate	**9,086**	8,873
Financial Agent of the Federal Government	**677**	-
Assets in custody or administration (Note 30)	**326,772**	291,536
Collateral securities received by the entity (Note 31)	**6,193**	9,276
Collateral securities received and sold or delivered by the entity in guarantee (Note 31)	**5,983**	7,006
Investment bank transactions on behalf of third parties, net	**41**	39
Uncollected accrued interest on past-due loan portfolio	**999**	816
Other memorandum accounts (Note 32)	**714,107**	777,730
	$ 1,638,275	$ 1,640,292

The historical balance of stockholders' equity at December 31, 2018 and 2017 is $14,178 and $13,311, respectively.

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

These balance sheets will be approved by the Board of Directors under the responsibility of the following officers.

The domain name of the website of the global network called "Internet" is http:/www.gob.mx/banobras/ and the website by which you can refer directly to the financial information referred to in Articles 180 to 184 of the General Provisions Applicable to Credit Institutions is: http://www.gob.mx/banobras/acciones-y-programas/informacion-financiera.

The website of the National Banking and Securities Commission where this information can be consulted, in compliance with the General Provisions Applicable to Credit Institutions, and periodically provides to this Commission is: http://portafolioinfo.cnbv.gob.mx/PUBLICACIONES/Boletines/Paginas/BD.aspx.

The accompanying notes are an integral part of the Financial Statements.

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO

Statements of Income

Years ended December 31, 2018 and 2017

These financial statements have been translated from the Spanish language original and for the convenience of foreign/English-speaking readers.

(Amounts in millions of Mexican pesos)

(Notes 1, 2 and 3)

	2018	2017
Interest income	$ 67,924	$ 53,983
Interest expense	56,148	42,655
Financial margin (Note 26)	11,776	11,328
Allowance for loan losses (Note 12)	467	2,215
Financial margin after allowance for loan losses	11,309	9,113
Commissions and fee income	1,358	877
Commissions and fee expense	53	50
Financial intermediation (Note 27)	609	322
Other operating income (expenses) (Note 28)	(7,475)	(4,328)
Administrative and promotional expenses	2,866	2,905
	(8,427)	(6,084)
Total operating income	2,882	3,029
Equity in income of non-consolidated and associated subsidiaries and joint ventures	-	-
Income before taxes	2,882	3,029
Current taxes (Note 19)	788	1,003
Deferred income tax (net) (Note 19)	(5)	130
	783	1,133
Income before discontinued operations	2,099	1,896
Discontinued operations	-	-
Net income	$ 2,099	$ 1,896

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

These statements of income will be approved by the Board of Directors under the responsibility of the following officers.

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BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO

Statements of Changes in Stockholders´ Equity

Years ended December 31, 2018 and 2017

These financial statements have been translated from the Spanish language original and for the convenience of foreign/English-speaking readers.

(Amounts in millions of Mexican pesos)

(Notes 1, 2, 3 and 23)

	Paid-in capital				**Earned capital**						
	Capital stock	**Contributions for future capital increases made by the Federal Government**	**Premium on subscription of capital contribution certificates**	**Donations**	**Statutory reserves**	**Retained earnings**	**Unrealized loss from valuation of available-for-sale securities**	**Unrealized gain from valuation of cash flow hedge derivatives**	**Remeasurements of employee's defined benefits**	**Net income**	**Total stockholders' equity**
Balances as of December 31, 2016	$ 15,760	$ 2,900	$ 2,873	$ 2	$ 4,470	$ 13,404	$ -	$ 51	$(138)	$ 1,258	$ 40,580
Changes resulting from stochholders' resolutions											
Appropriation of net income to retained earnings	-	-	-	-	-	1,258	-	-	-	(1,258)	-
Result from corrections of errors	-	-	-	-	-	(1)	-	-	-	-	(1)
Creation of reserves	-	-	-	-	126	(126)	-	-	-	-	-
Result from accounting changes	-	-	-	(2)	-	2	-	-	-	-	-
Capitalization of contribution for future capital increases	976	(2,900)	1,924	-	-	-	-	-	-	-	3,075
Contributions for capitalization (Note 23b)	-	3,075									
Changes related to the recognition of comprehensive income											
Comprehensive income											
Net income	-	-	-	-	-	-	-	-	-	4,111	4,111
Unrealized loss from valuation of available-for-sale securities	-	-	-	-	-	-	(77)	-	-	-	(77)
Unrealized gains on cash flow hedges	-	-	-	-	-	-	-	16	-	-	16
Remeasurements of employees' defined benefits	-	-	-	-	-	-	-	-	351	-	351
Balances as of December 31, 2017	16,736	3,075	4,797	-	4,596	14,537	(77)	67	213	4,111	48,055
Effect by change in particular standard (Note 12)	-	-	-	-	-	-	-	-	-	(2,215)	(2,215)
Balance adjusted retrospectively at December 31, 2017	16,736	3,075	4,797	-	4,596	14,537	(77)	67	213	1,896	45,840
Changes resulting from stochholders' resolutions											
Appropriation of net income to retained earnings	-	-	-	-	-	1,896	-	-	-	(1,896)	-
Result from corrections of errors	-	-	-	-	-	(124)	-	-	-	-	(124)
Creation of reserves	-	-	-	-	411	(411)	-	-	-	-	-
Capitalization of contribution for future capital increases	868	(3,075)	2,207	-	-	-	-	-	-	-	-
Contributions for capitalization (Note 23b)	-	7,585	-	-	-	-		-	-	-	7,585
Changes related to the recognition of comprehensive income											
Comprehensive income											
Net income	-	-	-	-	-	-	-	-	-	2,099	2,099
Unrealized loss from valuation of available-for-sale securities	-	-	-	-	-	-	(886)	-	-	-	(886)
Unrealized loss on cash flow hedges	-	-	-	-	-	-	-	(2)	-	-	(2)
Remeasurements of employees' defined benefits	-	-	-	-	-	-	-	-	534	-	534
Balances as of December 31, 2018	**$ 17,604**	**$ 7,585**	**$ 7,004**	**$ -**	**$ 5,007**	**$ 15,898**	**$(963)**	**$ 65**	**$ 747**	**$ 2,099**	**$ 55,046**

These statements of changes stock holders' equity were prepared in accordance with the Accounting Criteria for Credit Institutions issued by the National Banking and Securities Commission, based on the provisions of Articles 99, 101 and 102 of the Law on Credit Institutions, which an of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the operations conducted by the Bank through the years mentioned above, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

These statements of changes in stock holders' equity will be approved by the Board of Directors, under the responsibility of the managers who subscribe.

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The accompanying notes are an integral part of these financial statements.

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO

Statements of cash flows

Years ended December 31, 2018 and 2017

These financial statements have been translated from the Spanish language original and for the convenience of foreign/English-speaking readers.

(Amounts in millions of Mexican pesos)

(Notes 1, 2 and 3)

	2018	2017
Net income	**$ 2,099**	$ 1,896
Adjustments of items not affecting cash flow:		
Depreciation and amortization	**9**	10
Provisions (includes net cost of employees' defined benefits)	**644**	707
Current and deferred income tax	**783**	1,133
Discontinued operations	**-**	-
Other	**(9)**	(62)
	1,427	1,788
Operating activities		
Cash flows from operating activities		
Changes in investment securities	**(50,160)**	(27,197)
Changes of debtors on resale (repurchase) agreements	**2,060**	(270)
Changes in derivatives (assets)	**(6,749)**	42
Changes in loan portfolio (net)	**(38,574)**	(20,372)
Changes in foreclosed assets (net)	**2**	4
Changes in other operating assets (net)	**800**	(1,957)
Changes in deposit funding	**22,497**	39,471
Changes in Interbank and other borrowings	**5,564**	(11,794)
Changes of creditors on repurchase agreements	**43,125**	18,057
Changes in derivatives (liabilities)	**(407)**	(281)
Changes in other operating liabilities	**1,868**	1,806
Instruments for hedging (hedged items related to operating activities)	**6,525**	(729)
Income tax paid	**(522)**	(309)
Net cash flow used in operating activities	**(13,971)**	(3,529)
Investment activities		
Net cash used in investment activities	**-**	-
Financing activities		
Contributions for future capital increases	**7,585**	3,075
Net cash flow provided by financing activities	**7,585**	3,075
Net (decrease) increase in cash and cash equivalents	**(2,860)**	3,230
Adjustments to cash flows due to foreign exchange fluctuations	**(9)**	(14)
Cash and cash equivalents at the beginning of the year	**16,616**	13,400
Cash and cash equivalents at the end of the year	**$ 13,747**	$ 16,616

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

These statements of cash flows will be approved by the Board of Directors under the responsibility of the following officers.

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The accompanying notes are an integral part of these financial statements.

Banco Nacional de Obras y Servicios Públicos,
Sociedad Nacional de Crédito,
Institución de Banca de Desarrollo

Notes to financial statements

Years ended December 31, 2018 and 2017

These financial statements have been translated from the Spanish language original and for the convenience of foreign/English-speaking readers.

(Amounts in millions of Mexican pesos)

1. Description of the business

a) Description of the Business

Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo (the Institution, the Bank or Banobras), operates under the laws of its own Organic Law, the Mexican Credit Institutions Act and the standards and general provisions issued by the Ministry of Finance and Public Credit (SHCP, for its acronym in Spanish), Central Bank of Mexico (Banxico, for its acronym in Spanish) and the National Banking and Securities Commission (CNBV, for its acronym in Spanish). It is located at avenue Javier Barros Sierra 515, Colonia Lomas de Santa Fe, 01219, in Mexico City.

In conformity with Articles 2 and 3 of its Organic Law, Banobras provides public banking and loan services subject to the objectives and priorities of the National Development Plan and, specifically, the National Development Financing Program; it is primarily engaged in financing or refinancing public or private investment projects related to infrastructure and public services, and also to cooperate to the institutional strengthening of Federal, State and Municipal governments, with the purpose of contributing to Mexico's sustainable development.

Moreover, in order to ensure the efficiency and competitiveness of the sectors that it has entrusted, within the confines of its sphere of influence, Banobras is empowered, among other things, to assist, within its competence, the strengthening of the federal pact and free municipality; promote and finance the provision of infrastructure, public services and urban infrastructure, as well as the modernization and institutional strengthening of states and municipalities; finance and provide technical assistance to municipalities for the development, management and implementation of urban development plans; provide technical and financial assistance for better utilization of credit resources and the development of local governments; to finance the development of the communications and transportation sectors and promote financing and assistance joint action to other credit institutions, development funds, trusts, auxiliary credit organizations and the social welfare and private sectors.

Article 11 of the Banobras Organic Law establishes that the Federal Government shall unconditionally support all liability transactions arranged by the Bank with Mexican individuals and entities and with foreign private, government or intergovernmental institutions.

The main Bank’s funding sources come from the placement of securities on domestic and international markets, as well as foreign loans from international financial institutions, bilateral agencies, national and foreign banks.

b) Autorization

On March 13, 2019, the accompanying financial statements were authorized by the Banks’ officers who subscribe them for its issuance and subsequent approval by the Board of Directors, who have the authority to modify the Bank’s financial statements.

Within its inspection and oversight powers, the CNBV has the right to demand those modifications and corrections to the financial statements of credit institutions that it considers necessary prior to their publication.

2. Basis of presentation and accounting policies

- **Basis de presentation**

- **Financial Statements**

The financial statements at December 31, 2018 and 2017 have been prepared to meet legal provision to which Banobras is subject to as an independent legal entity.

- **Statement of compliance**

The financial statements of the Bank are prepared in accordance with regulatory accounting framework for credit institutions issued by the CNBV. This regulatory framework provides that entities must observe the accounting guidelines of the Mexican Financial Reporting Standards (FRS), issued and adopted by the Mexican Board of Financial Reporting Standards (CINIF, for its acronym in Spanish) and other supplementary provisions established in F25 A-8 of which apply, specific standards for recognition, valuation, presentation and disclosure of the information.

- **Accounting policies**

The main accounting policies and practices applied by the Management of Banobras in the preparation of its financial statements are described below:

a) Functional and reporting currency

The CNBV’s accounting standards concerning the issuance of the financial statements, state that the amounts must be expressed in millions of Mexican pesos. Consequently, in certain captions of the financial statements, the accounting records of the Bank show items with balances of less than the monetary unit (one million Mexican pesos) therefore, these are not included in the captions at all.

b) Use of judgments and estimates

The preparation of financial statements requires that the Bank's Management make judgments, estimates, and assumptions that affect the amounts of assets and liabilities recognized and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the income and expense amounts recognized during the year. Actual results may differ from these estimates and assumptions, incorporating such effects when they occur.

Judgments

Judgments used in the application of accounting policies that produce the most significant impact on the amounts recognized in the financial statements are described in the following notes:

- Note 7. Investment securities. Regarding the determination of the impairment of investments classified as held-to-maturity and the factors to be evaluated in the absence of observable information.
- Note 9. Derivatives and hedging transactions. Regarding the judgments used in mathematical models to determine their fair value, such as the volatility of longer-term derivatives and discount rates, early repayment rates and assumptions on the non-payment of securities.

Assumptions and uncertainties in estimates

The sources of uncertainty in applying the performed estimates that have a significant risk of resulting in an adjustment to the carrying amounts of assets and liabilities in the following year are included in the following notes:

- Note 12. Allowance for loan losses, concerning the methodologies used to measure additional risks that are considered to be outside the standard portfolio rating methodologies.
- Note 21. Benefits to employees, regarding the key assumptions used in the actuarial calculation of the defined benefit obligations.

c) Recognition of the effects of inflation in the financial information

During 2018 and 2017, Banobras operated in a noninflationary environment, in terms of the FRS B-10, due to the fact that the accumulated inflation for the last three previous year does not exceed 26%, as shown below:

		Inflation	
December, 31	UDI	Yearly	Cumulative
2018	6.226631	4.92%	15.71%
2017	5.934551	6.68%	12.60%
2016	5.562883	3.38%	9.97%

Based on the foregoing, the Bank suspended the recognition of the effects of inflation on its financial information as of January 1, 2008 and, consequently, only the non-monetary items included in the balance sheets, from periods prior to the December 31, 2007, recognize the inflationary effects from the date of acquisition, contribution or initial recognition until that date; such items are: property, furniture and equipment, foreclosed assets, intangibles, capital stock, capital reserves and retained earnings.

d) Recording of transactions

Transactions related to investment in securities, security repurchase agreements, derivatives and received loans, among others, both proprietary and third parties' behalf, are recorded on the date they are agreed, regardless of the settlement date.

e) Financial instruments valuation

To determine the fair value of positions in both proprietary and third party financial instruments (derivatives and non-derivatives), the Bank uses the prices, rates and other market information provided by a CNBV authorized price vendor.

f) Foreign currency transactions

- **Foreign currency purchase - sale**

Transactions involving foreign currency purchase – sale are recorded at the trade date price. When it is agreed that settlement shall be within a maximum of two bank-working days from the trade date, the traded currency is recorded as a restricted liquid asset (in the case of purchases) and a liquid asset disbursement (in the case of sales), against the corresponding clearing account. Gains or losses generated by these transactions are recognized in the income statement as part of the caption Intermediation income.

- **Foreign currency balances**

Comed out transactions are recorded in the foreign currency in which they are agreed. For financial reporting purposes, foreign currency denominated assets and liabilities are translated into Mexican pesos using the official exchange rate published by Banxico on the bank-working day immediately following the balance sheet date. The effects of exchange differences on foreign currency transactions are recorded in the income statement within the caption Financial margin when they arise from items relating to operating activities, and under the caption Other operating (expenses) income when they arise from other items.

g) Cash and cash equivalents

Cash and cash equivalents principally consist of bank deposits stated at nominal value, plus accrued interest at the balance sheet date.

Call money financing, whose repayment period may not exceed three bank-working days, is included as part of the caption Cash and cash equivalents. The interest earned is accounted for in the income statement under the caption Financial margin as accrued.

h) Investment securities

Investments securities include debt instruments and shares. They are classified based on management's intentions with regard to each investment at the time of purchase. Each classification includes specific rules with respect to the way the investment is recorded, valued and presented in the financial statements, as shown below:

- **Trading securities**

These instruments are acquired for the purpose of selling them and obtaining gains from their returns and/or the changes in the market prices. These investments are initially recognized at their fair value, which is calculated by taking into account any discount or premium. In the case of debt instruments, accrued interest is determined using the effective interest rate method, and is credited to income as part of the caption Interest income. Held-for-trading securities are valued at fair value and the related gain or loss is credited or charged to the income statement under the caption intermediation income.

- **Avaliable-for-sale securities**

These are securities which adquisition intention is not orientated to get earnings from the price differences resulting for repurchase in the short term, for neither the intention or capabiality to held to maturity, for wich, they are acquired with a different intention than trading and held-to-maturity securities.

They are initially recorded at fair value, including any discount or overpriced and the transactional costs. Accrued interest are determined using the effective interest method, recognizing its effect in the income statement in the Interest income caption. Valuation is determined at fair value and the respective effect is recognized as comprehensive income in the stockholders' caption. The result from valuations previously recorded in the stockholders' equity at the event of a sale is cancelated to be recognized in an income statement caption. For the securities classified as Items covered in fair value hedges, the result by valuation attributable to the risks covered is recognized in the Financial intermediation income caption.

When a decrease on the fair value of a title available-for-sale has been recognized in other comprehensive income in the stockholders' caption and there is evidence of an imparement, the valuation result is re-classified to a income statement caption.The re-classified amount is determined as follows: the difference between (i) the value at which the security was initially recognized, net of any payment of principal and amortization and (ii) the current fair value of the security, less any impairment loss of the security previously recognized in the results of the year. As of December 31, 2018, there are no indications of impairment in investments in securities available for sale.

- **Held to maturity securities**

Held-to-maturity financial investments are debt instruments with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. Held-to-maturity financial investments are initially recognized at their fair value, which is calculated by taking into account any discounts or premium on acquisition and transaction costs.

These securities are valued at their amortized cost, which means that the amortization of the premium or discount and the transaction costs is included in the accrued interest and the effect of such items is recognized in the statement of income as part of the Interest income caption.

Management regularly assesses whether there is any objective evidence that these investments are impaired. When such indicators do exist, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the instrument's original effective interest rate. The amount of the loss is recognized in the statement of income. For the years ended December 31, 2018 and 2017, there are no indicators of impairment in the Bank's instruments classified as held-to-maturity.

In accordance with the accounting criteria issued by the CNBV, a debt instrument cannot be classified as held-to-maturity if the Institution sold securities in this category or reclassified securities to this category as available-for-sale during the current year or during the two previous years, unless the amount sold or reclassified during the last 12 months does not represent more than 15% of the total amount of the investments held-to-maturity at the date of the transaction, regardless of whether the securities to be classified, those previously sold, or those reclassified have similar characteristics or not.

The Bank is considered to have maintained both the intent and the ability to hold the securities to maturity when it has made sales or transfers in the past that meet the following conditions: the security was sold within 90 days prior to either its maturity or, when applicable, the date of the option for repurchase of the security by the issuer, or after the entity has accrued or, when applicable, collected more than 85% of the original value of the security in nominal terms. In the latter case, sales must be attributable to one of the following circumstances:

a) The material impairment of the issuer's credit rating.
b) A change in the tax laws that affect the tax treatment of the instrument's yields and consequently, its value.
c) A business combination or restructuring involving the sale of a business segment including the financial instrument held to maturity.
d) The modification of the regulations to which an entity may be subject, and that affects the asset-stockholders' equity ratio.

At December 31, 2018, Banobras sold securities held-to-maturity, which did not represent more than 5% of the total amount of such securities at the date of the transaction; while for the fiscal year 2017, Banobras did not sell any held-to-maturity securities.

- **Reclassification of securities between categories**

In conformity with the CNBV's accounting criteria, the Bank can transfer securities from the held-to-maturity category to the available-for-sale category provided it does not have the intent or ability to hold them to maturity. In these instances, the related unrealized gain or loss must be recognized as another comprehensive income item in shareholders' equity. The unrealized gain or loss corresponds to the difference resulting from comparing the book value against the fair value of the financial instrument.

In the case of transfers to the held-to-maturity category or from the held-for-trading category to the available-for-sale category, the Bank must have the express authorization of the CNBV.

For the years ended December 31, 2018 and 2017, the Bank made no reclassifications of instruments between categories.

- **Dividends recorded**

Stock dividends received are recorded recognizing the increase or decrease in the number of shares held and, at the same time, the average unit purchase cost of the shares. This is the same as allocate a zero value to the dividend. Cash dividends paid by issuing companies are recorded in the income statement under the caption Interest income.

i) Repurchase / resell agreements

In security repurchase / resell agreements, the Bank is required to recognize an account receivable (as buyer) or an account payable (as seller), at the agreed price. Such amounts must then be valued using the amortized-cost method during the effective term of the agreement. Premiums earned and paid are recognized as they accrue under the captions Interest income and Interest expense, respectively.

Collateral securities received by the Bank, as a buyer, are recognized in memorandum accounts under the caption Collateral securities received by the entity. Such amounts are valued at their fair value.

When the Bank grants in guarantee (in security repurchase agreements) any collateral securities received as a buyer, an account payable is recognized and such account payable is valued using the amortized-cost method. The difference between the value of the account payable and the amount of cash received is recognized in the income statement under the caption Intermediation income. Securities sold or delivered in guarantee are recognized in Memorandum accounts under the caption Collateral securities received and sold or delivered in guarantee. These amounts are valued at fair value.

Collateral securities delivered by the Bank as a seller, are reclassified as restricted securities in the Investments in securities category in which they are recognized.

- **Offsetting financial assets and liabilities**

When the Bank sells or pledges in guarantee any collateral securities received as a buyer, the account payable recognized is offset against the account receivable initially recorded when the Bank acted as a buyer and the net debit or credit balance is presented as part of the caption Debtors under security repurchase agreements (debit balance) or Collateral securities sold or received in guarantee (credit balance), as appropriate.

j) Derivative financial instruments and hedging operations

Derivatives are recognized in the balance sheet at fair value, regardless of whether they are classified as held-for-trading or for hedging purposes. Cash flows received or delivered to adjust the derivatives to their fair value at inception (excluding premiums on options) are recognized as part of the fair value of the instrument.

The Bank uses hedging instruments as part of its strategies for mitigating or eliminating the various financial risks it is exposed to and its strategies for asset/liability management, and to reduce the cost of financial deposit founding. Transactions for trading refer mainly to those transactions that the Bank has carried out with its clients or with other intermediaries to meet their financial risk hedging requirements, thus generating hedging positions covered by the Bank through mirror transactions on the market.

At December 31, 2018 and 2017, Banobras contracted its entire derivative financial instruments in over-the-counter markets. The fair value of these instruments is determined using the valuation methodologies approved by the Bank's competent regulatory bodies. These valuation methodologies are consistent with the valuation techniques commonly used and accepted in the market.

Transaction costs are recognized in the income statement as they are incurred.

The notional amounts of the derivatives are also recognized in memorandum accounts under the caption Other memorandum accounts.

Accounting treatment of the Bank's agreements involving derivatives are as follows:

- **Derivative financial instruments for hedging purposes**

Derivative financial instruments acquired for hedging purposes are recognized at their fair value as either assets or liabilities depending on the rights and obligations they contain. These transactions are recognized using hedge accounting, which consists of recognizing either the gain or loss on the hedging instrument and the hedged item depending on whether the hedge qualifies as a fair value hedge or a cash flow hedge.

- **Fair value hedges**

These instruments hedge the exposure to changes in the fair value of a recognized asset or liability or unrecognized firm commitments, or an identified portion of such assets, liabilities or unrecognized firm commitments attributable to a particular risk and this may affect the Bank's operating results. The Bank has contracted fair value hedges for market risks related to financial assets and liabilities.

Firm commitments correspond to mandatory arrangements for the exchange of a given amount of money at a specific price and on an established date.

Changes in the fair value of instruments for hedging purposes are recognized in the income statement caption in which the hedged positions and the fair value attributable to the risk being hedged are recorded.

Changes in the fair value of hedged positions related to interest rate risks of a portion of a financial asset and liability portfolio are also recognized on the balance sheet as part of the captions Valuation adjustment for financial asset hedges or Valuation adjustment for financial liability hedges, as appropriate.

- **Cash flow hedges**

These derivative financial instruments with hedging purposes represent the exposure to variability in cash flows for a forecasted transaction that (i) is attributable to a particular risk associated with a recognized asset or liability (such as all or several of the future interest payments corresponding to a variable-interest loan or debt instrument) or a highly probable event; and that (ii) could affect the Bank's operating results.

The effective portion of the change in fair value of cash flow hedges is initially reported as another comprehensive income item in stock holders' equity under the caption Unrealized (loss) gain on cash flow hedges, while the ineffective portion is immediately recognized in profit or loss as part of the caption intermediation income. The gains and losses recognized in other comprehensive income are reclassified to profit or loss when the hedged item affects operating results.

- **Hedge effectiveness**

The effectiveness of the Bank's hedges is evaluated monthly. Whenever it is determined that a derivative is no longer a highly effective hedge, the Bank prospectively ceases to apply hedge accounting to the derivative and the derivative is reclassified as held-for-trading. The main comprehensive risk management practices, policies and procedures implemented by the Bank are specified in Note 33.

- **Forwards**

Forwards are transactions in which there is an obligation to purchase or sell a financial asset or an underlying at a future date for an amount, quality and price that are pre-established in the agreement. For these transactions, the party agreeing to make the purchase assumes a long position and the party agreeing to sell assumes a short position.

For forwards, an asset portion and a liability portion are recognized at the initially contracted price multiplied by the notional amount. The valuation of such transactions is made at fair value, which corresponds to the present value of future flows expected to be received and delivered, and projected in accordance with applicable future implicit rates discounted from prevailing market interest rates at the date of valuation. The related unrealized gain or loss is recognized in the statement of income as part of the caption Intermediation income. The net long or short position of the Bank's buying or selling transactions is presented in the balance sheet as either an asset or a liability, depending on the position, under the captions Derivatives held-for-trading or Derivatives for hedging purposes, as appropriate.

At December 31, 2018 and 2017, the Bank's fair value forwards are for hedging purposes and for trading purposes.

- **Swaps**

Swaps are recorded at the initially contracted price. The valuation of such transactions is made at fair value, which corresponds to the present value of future flows expected to be received and delivered, and projected in accordance with applicable future implicit rates discounted from prevailing market interest rates at the date of valuation. The notional amounts are recognized in the balance sheet as assets and/or liabilities when their exchange is agreed to, as appropriate; otherwise, they are only recognized in memorandum accounts.

In the case of trading swaps, changes in the fair value are recognized in the income statement as part of the caption intermediation income. The effects of valuation of swaps for hedging purposes are recognized in the statement of income or in stock holders' equity, if the hedging strategy is based on fair value or cash flows respectively.

The interest generated on swaps acquired for hedging purposes is recognized as part of Financial margin and includes exchange differences, while interest generated on swaps classified as held-for-trading is recognized in the Intermediation income caption. The exchange results of derivative financial instruments are part of the Financial margin.

Management assesses whether there is objective evidence that a financial asset from the rights established in the derivatives, experience an impairment in credit risk (counterparty) and in that case, the carrying amount is reduced to its estimated recoverable amount and the amount of the loss is recognized in the income statement under the caption Intermediation income.

The net long or short position of the Banks' swaps is presented in the balance sheet as either an asset or a liability, depending on the individual contract position, under the captions Derivatives held-for-trading or Derivatives for hedging purposes, as appropriate.

At December 31, 2018 and 2017, the Bank has entered into swap contracts for trading and hedging purposes (both fair value and cash flows).

- **Collateral granted and received**

To guarantee the payment of the operations carried out in over-the-counter markets, collaterals are usually received or delivered in cash as collateral. These are recognized under Other receivable accounts in the case of collateral granted; while the collateral received is recognized under Other accounts payable.

In the case of collateral received or delivered other than cash (securities), they are recognized depending on the right that is held over them. In the case of securities received as collateral, they are recognized as memorandum accounts in Collaterals received by the entity. In the case of securities delivered as collateral, the securities are reclassified, presenting them as a restricted item.

- **Embedded derivatives**

Embedded derivatives are those components of a contract not explicitly intended to act as a derivative instrument, but whose economic characteristics and associated risks differ from the economic characteristics and risks of such contract (known as the host contract) and consequently, exhibit behavior and characteristics similar to those of a common derivative instrument.

When the economic characteristics and risks of the embedded derivative are not closely related to the characteristics and risks of the host contract and the latter is not valued at fair value with the corresponding valuation being recognized in the Bank's income statement, the embedded derivative is separated for purposes of valuation and receives the accounting treatment of a derivative.

Based on the analysis performed by management, at December 31, 2018 and 2017, the Bank identified no embedded derivative that should be segregated.

The main comprehensive risk management practices, policies and procedures implemented by the Bank are specified in Note 33.

k) Clearing accounts

Clearing account balances refer to security repurchase agreements and securities or foreign currency trading activities that are not paid or settled the same day on which such transactions are carried out. With respect to transactions involving the buying and selling of foreign currencies that are not paid for immediately in cash or where settlement is not on a same-day basis, the related amount receivable or payable is recorded in Mexican pesos in clearing accounts, until the respective collection or payment is made.

Debit and credit balances in clearing accounts are included as part of the caption Other accounts receivable and Settlement of transactions, as the case may be, and can be offset only if and when the Bank has the contractual right to do so and intends to settle the net amount, or to simultaneously realize the asset and settle the liability.

l) Loan portfolio

Accounting records

- **Loan portfolio records**

Lines of credit granted to consumers are controlled in memorandum accounts as part of the caption Credit commitments, at the time they are authorized by the Bank’s Internal Loan Committee, the Executive Loan Committee or the Board of Directors as described in the Bank’s loan manual. Drawdowns made by borrowers on the authorized lines of credit are recorded as assets at the time the related funds are transferred.

The amount recorded in the loan portfolio represents the outstanding balance of the amounts actually delivered to the borrowers, plus unpaid accrued interest at the balance sheet date, in conformity with each loan's repayment plan.

Capital leases are recorded as direct financing, considering the total amount of rents agreed on under the related contracts as a loan portfolio. Financial income on these transactions, which is equal to the difference between the value of the rents and the cost of leased assets, is recorded in the balance sheet as a Deferred credit and is recognized in operating results as it accrues.

The Value Added Tax generated by capitalized lease operations is recognized on the date of each disbursement of the credit line granted. It is presented in the account of Other receivable accounts and is recovered on the due dates of the contractually agreed rents, for its entire to the tax authorities.

The purchased option agreed on under capital leases is recognized as income on the date of collection or as amortized income during the remaining term of the lease from the time the lessee agrees to take such option.

Lease contracts are classified as capitalizable if the lease transfers to the lessee ownership of the leased property at the end of the lease, the contract contains a purchase option at a reduced price, the lease period is substantially equal to the remaining useful life of the leased asset, or the present value of the minimum payments is substantially equal to the market value of the leased asset, net of any benefit or value of waste.

Advances granted by the Bank for the acquisition or installation of assets that will be part of committed lease contracts are recognized as part of the loan portfolio. Interest collected on such advances is recognized in the income statement under the Financial Margin caption as it accrues.

Interest on performing loans is credited to income as it accrues, irrespective of the settlement date. The recognition of interest is suspended at the time the loan is transferred to the past-due portfolio. Concerning uncollected ordinary interests classified in the past-due portfolio, an estimate is constituted for an amount equal to the total of these at the time the loan is transferred to the past-due portfolio.

Commissions collected on the initial granting of loans are amortized to earnings over the term of the loan. Commissions collected on loans that have been restructured or rolled-over are amortized to earnings over the new term of the loan.

Commissions collected on the opening of lines of credit against which there have been no drawdowns are recognized as interest income on a deferred basis over a term of twelve months. At the time drawdowns are made, the amortization period is adjusted to the term of the drawdown. When lines of credit are cancelled before the referred 12-month term has passed, the remaining balance is recognized in the income statement under the caption Commissions and fees.

Incremental costs incurred in the granting of loans are being amortized in the statement of income, based on the terms in which commissions collected on assets are amortized.

Guarantees are recognized in Memorandum accounts as part of the caption Contingent assets and liabilities. Commissions collected on these transactions are charged to the income statement at the time they are generated.

Loans to employees and former employees are presented as part of the other accounts receivable and Loan portfolio captions, respectively. Interest on loans to employees is presented in the statement of income as part of the caption Other operating (expenses) income, while interest charged on loans extended to former employees are presented under the caption financial margin.

- **Transfers to the past-due loan portfolio**

When payments of commercial loans or accrued interest are not made at the time they are due, the aggregate amount of principal and interest is transferred to the past-due loan portfolio under the following assumptions:

- When the Bank learns that the borrower has declared bankruptcy in terms of the Mexican Bankruptcy Act.

  Regarless of the provisions of this paragraph, the loans that continue receiving payment in terms of the provisions of fraction VIII of article 43 of the Mexican Bankruptcy Act, as well as loans granted under article 75 in relation to fractions II and III of article 224 of the Act, will be transferred to past-due portfolio when these incur in the assumptions provided in the following paragraph.

- When the borrower fails to make payments within the originally stipulated terms, as follows:

  - If the loan is repayable in one single payment of principal and interest and is 30 days or more overdue;

  - If principal is repayable in one single installment and interest is payable in installments and the loan is 90 days or more overdue in interest payments or 30 days or more overdue in repayment of principal;

  - If principal and interest are due and payable in installments, including mortgage loans, and the loan is 90 days or more overdue; and;

  - If the loan consists of revolving loans and there are two past-due monthly billing periods or, if the billing period is other than monthly, it is 60 days or more overdue.

Overdue loans are transferred back to the performing loan portfolio when the borrower pays in full the outstanding balances.

Management assesses if a past due loan should remain in the balance sheet, or being charge-off as they are provisioned at 100%. Penalty is made by canceling the unpaid balance of the credit against the allowance for loan losses previously created for each loan.

- **Troubled loan portfolio**

The Bank performs a monthly analysis of the economic environment in which its borrowers operate, so as to promptly identify possible problems in the performing loan portfolio, in terms of Accounting Policy B-6, Loan Portfolio.

"D" and "E" risk-grade commercial, consumer and mortgage loans, and all other loans that meet the conditions indicated by the CNBV for transfer to the past-due loan portfolio are identified as troubled loan portfolio.

- **Loan restructurings and rollovers**

Loan restructurings consist of extensions made to the guarantees covering drawdowns made by borrowers, as well as changes in the original loan conditions with respect to payments, interest rates, or currency, a grace period granted by the Bank on the fulfillment of the payment obligations or the term of credit is extended.

Loan rollovers are operations in which the balance of the loan is partially or totally settled through the increase in the original amount of the loan, or additional financing obtained from the Bank by either the original debtor or any other person that, because of common economic links with the debtor, constitutes a common risk.

Restructured or rolled-over overdue loans remain in the performing loan portfolio as long as there is evidence of sustained payment of both principal and interest of at least three consecutive installments, or in the case of installments that cover periods in excess of 60 days, when the borrower has made at least one payment. For restructured loans that involve a reduction in the frequency of payments below what was originally agreed, sustained payment shall be considered to exist when three consecutive payments under the original payment plan have been made.

Loans to be repaid in a single installment of principal and/or interest upon maturity that are restructured during the term of the loan or rolled-over at any time shall be considered to be overdue while there is no evidence of sustained payment. Performing loans, other than those mentioned, that are restructured or rolled-over before 80% of the original term of the loan has passed are considered performing loans only when the borrower has paid the full amount of accrued interest and repaid the original principal of the loan that was due and payable at the date the loan was restructured or rolled-over. Otherwise, such loans are considered to be overdue until there is evidence of sustained payment.

Performing loans that are restructured or rolled-over during the last 20% of the original term of the loan are considered performing loans only when the borrower has paid the full amount of accrued interest and repaid the original principal of the loan that was due and payable at the date the loan was restructured or rolled-over, representing 60% of the original amount of the loan. Otherwise, such loans are considered to be overdue until there is evidence of sustained payment.

Revolving loans that are restructured or rolled-over at any time are considered performing loans only when the borrower is current in its payment of interest and principal and there is evidence to support the debtor's continued payment capacity.

The foregoing is not applicable to those restructured loans which, at the date of the modification of the original conditions of the loan, show compliance with payment of principal and interest and only the guarantees are extended or improved, or improve the rate in favor of the borrower, or the currency is modified and the rate corresponding to the new currency is applied or the date of payment is changed, without causing an increase to the frequency of payments.

- **Financing mechanisms with foreign currency hedges**

State and Municipality Support Fund (FOAEM, for its acronym in Spanish)

The FOAEM is a mandate agreement under which the Federal Government acts as the principal and Banobras acts as the agent. The purpose of this agreement is to hedge the foreign currency risk. This plan allows loans that are backed by foreign funding to be drawn down and repaid by the borrowers in Mexican pesos and/or in investment units (UDIs), while ensuring the repayment of the full amount of the foreign currency.

For accounting purposes, the Bank recognizes a notional amount for the FOAEM transactions to level off the foreign currency short position generated on loans from international financial bodies and the UDIs long position generated on loans denominated in Mexican pesos with the counterparties. For purposes of presentation in the financial statements, the net value of both positions is zero after being translated to Mexican pesos.

Resources delivered to the mandate from loan recoveries are controlled through "Recoverable balance as the agent of the State and Municipal Support Fund Mandate" asset account, while the costs of hedges and the effects of fluctuations in the value of the UDIs are recorded in the so-called "Balance payable as the Agent of the State and Municipal Support Fund" liability account. For purposes of presentation in the financial statements, the net balance of the two accounts is presented in the asset caption called Balance as the Agent of the State and Municipal Support Fund.

Since the foreign currency component of the aforementioned contract is closely related to the contract, there is no need for the foreign currency component to be evaluated separately as an embedded derivative.

m) Allowance for loan losses

Allowance for loan losses is determined based on technical and operational criteria, established under the CNBV's general regulatory provisions for credit institutions, on qualification of the loan portfolio in accordance with article 76 of the Law of Credit Institutions.

The credit loss reserve methodology is described in Note 33 a) x).

The increases or decreases in the allowance for loan losses derived from the rating process are recorded, affecting the financial margin adjusted for credit risks. When the amount of reductions determined for the provision exceeds the balance of the provision recorded in the year in question for each type of portfolio (commercial, consumer or home mortgage), the excess amount is recognized in other operating (expenses) income.

The institution constitutes a reserve of 0.5% to the financing granted to the Federal Government or with its express warranty, in accordance with of article 112, section VI, numerals from i to viii, of the Circular Única de Bancos (CUB for its Acronym in Spanish)

- **Aditional allowance for loan losses recognized by the CNBV**

The additional allowance for loan losses recognized by the CNBV covers risks that are not addressed by the credit loss reserve methodologies. Prior to creating additional reserves, the Bank is required to inform the CNBV of the following: i) the origin of the estimates; ii) the methodology used to compute them; iii) the amount to be reserved; and iv) the time the Bank expects them to be required.

n) Permanent investments

This caption includes shares in auxiliary banking entities and in related service companies, as well as its equity contribution certificates in other development banks. These long-term equity investments were recorded at acquisition cost and have been restated for inflation through December 2007.

ñ) Property, furniture and equipment

These assets are stated at book value, net of the related accumulated depreciation. Depreciation is computed on the book value of assets using the straight-line method at the established annual rates determined based on the estimated useful lives of the related assets. Maintenance and repairs are expensed as incurred.

o) Foreclosed assets

Foreclosed assets are recorded by comparing the value of assets or amortization due or overdue incurred during the foreclosure or repossession proceedings, net of estimates of the value of the property awarded. If the net asset exceeds the value of the foreclosed property, the difference is recognized in the income statement as Other income (expenses) of the operation, whereas if lower, the value of the foreclosed property is set to the net asset value.

Allowances are created based on the book value of these assets to recognize the potential losses in value due to the passage of time using the percentages established by the Commission by type of property (personal or real) and on the time elapsed from the date the asset was foreclosed on or repossessed or received as payment in kind.

p) Other assets

The Bank recognizes at fair value the assets used to create an irrevocable trust fund to cover retirement benefits accruing to its employees. These assets increase as a result of contributions made to the fund and the expected returns on assets plan determined based on actuarial computations performed by independent experts, and decrease as a result of charges against or withdrawals from the fund (Note 2s). The balance of the assets is presented in the balance sheet net of the related labor obligations. When the amount of the labor obligations is less than the balance of assets, the difference is presented in the caption Other assets, and when the labor obligations exceed the asset, the balance is presented in the caption sundry creditors and other accounts payable.

The Bank also recognizes in this caption the advance payments made to service providers, which are amortized over the term of the agreement using the straight-line method; expenses for the issuance of debt, which are amortized over the term of the securities using the straight-line method; advance payments to supervisory bodies, which are amortized in the year, and recoverable tax balances.

q) Impairment in the value of long-lived assets

The Bank performs annual analyses to determine whether there are indicators of impairment in the value of its long-lived assets, tangible or intangible, which might give rise to impairment in the value of such assets. At December 31, 2018 and 2017, there are no indicators of impairment in the value of the Bank's long-lived assets.

r) Deposit funding

Call money loans, which must be repaid within three bank working days, are included in the Demand deposits caption under Interbank loans and other borrowings. Earned or accrued interest is charged to income under the caption financial margin, using the accrual method.

Liabilities associated with deposits and borrowings (time deposits, debt instruments and interbank and other borrowings) are accounted for at the underlying amount of the liability. Accrued interest is charged to income as part of the caption Financial margin, using the accrual method at the agreed rate.

Securities that are part of financial liabilities are classified and recorded as follows:

- Securities placed at nominal value. Are accounted for at the underlying amount of the liability. Accrued interest is charged to income;

- Securities placed at a price other than nominal value (with a premium or at a discount). Are accounted for at the underlying amount of the liability, while the difference between the nominal value of the security and the amount of cash received is recognized as a deferred charge or credit and is amortized against income during the term of the security.

- Securities issued at discount. They are recognized based on the amount of cash received. The discount is gradually recognized in the income statement using the accrual method against the liability to eventually reach the nominal value at maturity.

At December 31, 2018 and 2017, time deposits consist primarily of promissory notes with interest payable at maturity (PRLV) placed at a discount and bank deposit certificates (CEDES) and domestic senior notes (CEBURES) placed at nominal value.

Commissions paid for loans received by the Bank or for the placement of debt are charged to income under the caption Commissions and fees at the time they are generated.

Debt issue costs, as well as the discounts or premiums on the debts are recorded in the balance sheet as a deferred charge or credit, as the case may be, and are amortized as interest income or expense as they accrue over the term of the securities giving rise to them.

For financial statement presentation purposes, debt premiums and discounts are included in the liability giving rise to them. Deferred issue costs are presented in the caption Other assets.

s) Post-employment benefits and termination benefits

- Short-term direct benefits

The direct benefits for employees in the short term are recognized in the results of the period in which the services rendered are accrued. A liability is recognized for the amount that is expected to be paid if the Institution has a legal or assumed obligation, as a result of the past services provided and the obligation can be estimated reasonably.

- Long-term direct benefits

The net obligation of the Institution in relation to long-term direct benefits except for deferred PTU (Note 19) that is expected that the Institution pays after twelve months from the date of the most recent statement of financial position presented, is the amount of future benefits that employees have obtained in exchange for their service in the current and previous years. This benefit is discounted to determine its present value.

- Termination benefits

A termination benefits liability and a cost or expense is recognized when the Institution has no realistic alternative other than to face payments or can not withdraw the offer of those benefits, or when it meets the conditions to recognize the costs of a restructuring, what happens first. If they are not expected to be settled within 12 months after the end of the year, then they are discounted to determine their present value.

- Defined plan benefits

The bank has established a defined benefit plan which covers retirement pensions, seniority bonuses and legal compensations to which employees are entitled, in accordance with the Federal Labor Law, as well as obligations relating to post-retirement benefits, such as medical services, between others. The plan is closed and was in effect until September 1, 2009.

The calculation of defined benefit obligations is performed annually by independent experts, using the projected unit credit method. The labor cost of the current service, which represents the cost of the period of employee benefits for having completed one more year of working life based on the benefit plans, is recognized in the administration and promotional expenses. The Institution determines the net interest expense (income) on the net liability (asset) for defined benefits of the period, multiplying the discount rate used to measure the benefit obligation defined by the net liability (asset) defined at the beginning of the annual period considering net changes in the liability account (asset) for defined benefits during the period as a result of estimates of contributions and benefit payments.

Plan modifications that affect the cost of past services are recognized in the results immediately in the year in which the modification occurs, without the possibility of deferral in subsequent years. Likewise, the effects of liquidation or reduction of obligations in the period, which significantly reduce the cost of future services and / or significantly reduce the population subject to the benefits, respectively, are recognized in the results of the period.

The assets of the plan are managed through an irrevocable trust. The Institution makes the determined contributions according to the actuarial calculation and recognizes the the amounts contributed at fair value.

Remeasurements generated starting January 1, 2016 (actuarial gains and losses) resulting from differences between projected actuarial assumptions and figures at the end of the period are recognized in the period in which they are incurred as part of the comprehensive income within stockholders' equity and subsequently are recycled to the results of the period, based on the life expectancy of the retired group.

- Defined contribution plan

As part of the review of its general work conditions carried out in September 2009, the Bank introduced a Defined-Contribution Pension Plan with individual accounts that is obligatory for all new workers and optional for those employees already employed by the Bank at such date and were in the Defined-Benefit Plan. Employees who have decided to change over to the defined-contribution pension plan may not return to the defined benefit pension plan.

In the case of pensions, the Bank makes biweekly contributions, recognizing its effect on results, in the administration and promotional expenses caption. The liabilities for post-employment benefits that come from seniority premiums which employees are entitled according with the Federal Labor Law, other post-employment benefits such as medical services and the benefits that come from termination by accounts other than restructuring, are recognized based on the actuarial calculation made by independent experts. The net cost of the period is recognized by affecting the results, in the heading Administration and promotional expenses caption.

The assets of the plan are managed through an irrevocable trust. The Institution makes the determined contributions according to the actuarial calculation and recognizes the the amounts contributed at fair value.

- Initial cumulative effect by new FRS D-3

The Bank will start the accounting recognition of the balance for modifications to the plan not yet recognized and the accumulated balance of gains or losses of the pending plan recognition, at the latest in the year 2021, recognizing 20% of the balances from its initial application and a 20% additional in each subsequent year, until reaching 100% in a maximum period of 5 years.

The initial amount with figures as of January 1, 2016, of the accumulated balance of unrecognized defined benefit plan losses was $7,029, while the balance of modifications to the plan not yet recognized was $75. Likewise, the initial amount with figures as of January 1, 2016, of the accumulated balance of the losses of the mixed defined contribution plan to be recognized was $5, while the balance of modifications to the plan not yet recognized was $4.

In addition, and since FRS D-3 states that the remeasurements recognized in Other Comprehensive Income (OCI) must subsequently be recycled to the period's result based on the life expectancy of the group retired at the beginning of each period, that is, forming part of the net cost of the period and, to avoid a distortion in the accounting capital of the Institution, an amount equal to the recycling determined in the year is being recognized in it along with the liabilities that include primarily the recycling determined with the change of the standard. The amount for the defined benefit plan is set at $470, with $2 set for the Defined Contribution Plan.

This does not constitute the anticipated recognition of the changes by reformulation, indicated in the aforementioned resolution that modifies the banking accounting provisions.

- Net cost of the period

At December 31, 2018, the net cost of the defined benefit plan for the period amounted to $572, while the Defined Contribution Plan amounted to $32. Also, at December 31, 2017, the net cost of the defined benefit plan for the period amounted to $634, while the Defined Contribution Plan amounted to $38.

t) Employee statutory profit sharing (ESPS)

Current-year and deferred ESPS is presented in the Administrative and promotional expenses caption in the income statement.

Deferred ESPS is recognized using the asset and liability method. Under this method, deferred ESPS is computed by applying the 10% rate to all temporary differences between the values of assets and liabilities for financial and tax reporting purposes.

The Bank computes its ESPS based on the provisions of article 9, of the Mexican Income Tax Law in force at December 31, 2018. For the period from January 1 to December 31, 2018, the Bank's ESPS was $292 and for 2017 was of $368.

At December 31, 2018, Banobras booked a deferred statutory employee profit sharing (PTU, acronym in Spanish) liability equal to $211, and at December 31, 2017, it quantified a deferred PTU liability of $221 for disclosure purposes (Note 19b).

u) Income tax (IT)

IT consists of current-year and deferred tax. Current-year IT refers to the tax payable by the Bank on its taxable income for the period, while deferred IT is comprised of the deferred assets and liabilities attributable to temporary differences between the book and tax balances of balance sheet accounts, plus the effects of tax losses and tax credits.

Current-year IT is determined in conformity with current tax legislation and represents a liability of less than one year. Tax prepayments in excess of annual tax for the year gives rise to an account receivable.

Deferred IT is determined using the asset and liability method, and applying the IT rate.

Deferred IT is calculated using the rate set forth in Mexican tax law at the date of the financial statements or at the rate that will be in effect at the time the temporary differences giving rise to the deferred taxes are expected to reverse, the tax losses are to be carried forward or the tax credits are to be applied.

v) Assets and liabilities in investment units (UDIS, for its acronym in Spanish)

UDIs denominated assets and liabilities are presented in the balance sheet at their Mexican peso value at the balance sheet date. The value of the UDI at December 31, 2018 and 2017 was $6.226631 and $5.934551, respectively. At the date of the audit report on these financial statements (March 13, 2019), the value of the UDIs was $6.247766.

w) Memorandum accounts

Memorandum accounts are used to record and control all of the Bank's financial and non-financial supplementary balance sheet information, mainly related to the opening of lines of credit with borrowers, guarantees, securities held for safekeeping and securities under management, which are stated at fair value, as well as property held under trust agreements (when the Bank acts as trustee) and asset and liability positions under security repurchase agreements. The notional amounts of the Bank's derivatives and budgetary control items are also recognized in memorandum accounts.

x) Financial agent of the Federal Government

The transactions carried out by the Bank as an agent on behalf of the Federal Government are recorded under memorandum accounts. Intermediation commissions received on these transactions are recorded in the income statement as they accrue.

Transactions not carried out under mandate for which the Bank assumes the rights and obligations of the loan portfolio agreements and other borrowings are recorded based on the type of transaction or rather, as either part of the loan portfolio or as part of interbank and other borrowings, as applicable. These transactions are presented in the Loan portfolio and Interbank loans and other agencies, respectively.

y) Commission income and expense

The commissions and fees collected and paid are those generated by credit operations other than origination. They are generated by the provision of services, among others, management, transfer, custody or management of resources, fiduciary activities and by the granting of guarantees and guarantees. These are recognized in results at the time they accrue.

z) Intermediation income

Intermediation income and losses mainly result from valuations at fair value of held-for-trading securities and transactions with derivatives for hedging or held-for-trading derivatives, as well as the realized gains and losses on securities, derivatives and foreign currency trading activities.

aa) Comprehensive income

Comprehensive income consists of the net income or loss for the year plus those items that are reflected directly in stock holders' equity and do not constitute capital contributions, reductions or distributions.

ab) Segment information

The Bank has identified the operating segments that comprise its different activities and each segment is considered an individual component of its internal structure, each with its own particular risks and return opportunities. Segments are reviewed periodically to ensure their adequate funding and to evaluate their performance (Note 25).

3. Accounting changes and corrections of errors

a) Accounting changes

On December 2017, the CINIF issued the document called "Improvements to FRS 2018" that contains specific improvements to certain FRS that already exist. The main improvements that generated accounting changes are those listed as follows:

FRS B-10 "Effects of inflation"- This standard requires disclosure of the cumulative three-year inflation rate that was used as a basis to determine the inflationary or non-inflationary economic environment in the current year, including the last two years and that of the period itself that will serve as a basis for rating the economic environment in which the entity will operate in the following year. This improvement will be in force from the year starting on January 1, 2018, permitting early adoption. The accounting changes that arise must be recognized retrospectively.

FRS C-6 "Property, furniture, and equipment" and FRS C-8 "Intangible Assets"- This standard establishes that an asset depreciation and amortization method based on the amount of revenue associated with its use is not appropriate, given that this amount of income may be affected by different factors than the pattern of consumption of economic benefits of the asset. This standard clarifies the meaning of the consumption line item for the future economic benefits of an asset. This improvement will be in force from the year starting on January 1, 2018. The accounting changes that arise must be recognized prospectively.

The adoption of aforementioned improvements to FRS did not generate significant effects on the Bank's financial information.

b) Accounting changes with retrospective treatment

- Additional allowances

On June 2018, the Bank adopted new risk measurements, which the Comprehensive Risk Management Committee approved and included into the Comprehensive Risk Management Manual (MAIR, for its acronym in Spanish) for the constitution of additional allowances which mainly affected the project private sector´s loan portafolio on construction phase, due to it was identified the ratio between the months of delay and the progress of projects, were not established in its specific standard.

The aforementioned change on the specific standard, only affected allowance for loan losses of 2017, which amounted to $2,215.

Consequently, the following chart presents the adjustments on the 2017 financial statements's captions, to make presents comparable with the financial information provided for fiscal year 2018:

- **Balance sheet**

	Previous presentation	Adjustments	New presentation
Asset			
Allowance for loan losses	$ 8,052	$ 2,215	$ 10,267
Total loan porfolio, net	386,394	(2,215)	384,179
Total asset	762,179	(2,215)	759,964
Stockholders' equity			
Net income	4,111	(2,215)	1,896
Earned capital	23,447	(2,215)	21,232
Total stockholders´ equity	48,055	(2,215)	45,840
Total liabilities and stockholders´ equity	$ 762,179	$ (2,215)	$ 759,964

- **Statement of income**

	Previous presentation	Adjustments	New presentation
Allowance for loan losses	$ -	$ 2,215	$ 2,215
Financial margin after allowance for loan losses	11,328	(2,215)	9,113
Operating income	5,244	(2,215)	3,029
Net income	$ 4,111	$ (2,215)	$ 1,896

- **Derivative financial instruments and hedging transaction**

The Bank made changes to its presentation of the statement of cash flow to the captions corresponding to hedging derivative financial instruments and the valuation of the hedging transactions. The reclassifications are as follows:

- **Statement of cash flows**

	Previous presentation	Adjustments	New presentation
Net income	$ 4,111	$ (2,215)	$ (1,896)
Adjustments of items not affecting cash flow:			
Others	289	(351)	(62)
Operating activities			
Changes in derivatives (assets)	111	(69)	42
Changes in loan portfolio (net)	(22,710)	2,338	(20,372)
Changes in other operating assets (net)	(2,400)	443	(1,957)
Changes in deposit funding	39,366	105	39,471
Changes in interbank and other borrowings	(11,882)	88	(11,794)
Changes in derivatives (liabilities)	(1,079)	798	(281)
Changes in other operating liabilities	2,013	(207)	1,806
Changes in instruments for hedging (hedged items related to operating activities)	201	(930)	(729)
Net cash flows used in operating activities	$ (6,095)	$ 2,566	$ (3,529)

c) Correction of errors

During the year 2018, correction of errors were recorded under the caption “Retained earnings” for $124, explained as follows:

- Decrease in the deferred income tax liability for $117, which was generated by a deferred tax asset of $66 (for the recognition of a deferred employee statutory profit sharing liability) and by the decrease of a deferred tax liability for $51 (due to exclude the deferred tax value of the land from the determination).

- Creation of the deferred employee statutory profit sharing liability for $221,

- Cancellation of prepaid income tax for $18, made by a trust,

- Recognition of interest for $2, generated by the extemporaneous income tax payment from interest payments made to a foreign resident.

4. Related parties

- Transactions

At December 31, 2018 and 2017, an analysis of the loans for which the Bank acts as a financial agent of the Federal Government, including the related liabilities, (amounts shown in millions of mexican pesos) is as follows:

	2018			2017		
	Asset transaction	**Liabitily transaction**	**Net monetary asset (liability) position**	Asset transaction	Liability transaction	Net monetary asset (liability) position
Financial agent:						
Euros	**$ 581**	**$ 580**	**$ 1**	$ 673	$ 672	$ 1

The long positions relating to these transactions are covered by the Federal Government.

Balances of the transactions with related parties, are disclosed in the subsequent notes, relating to the concepts of the balance sheet and income statement.

5. Foreign currency balances

The financial statements at December 31, 2018 and 2017, include the following foreign currency denominated assets and liabilities:

	Foreign currency (millions)		**Equivalent in Mexican pesos**	
Currency	**2018**	2017	**2018**	2017
Assets:				
U.S. Dollar	**3,081**	3,260	**$ 60,547**	$ 64,100
Japanese Yen	**53,780**	55,111	**9,630**	9,624
Euros	**69**	317	**1,558**	7,489
			71,735	81,213
Liabilities:				
U.S. Dollar	**3,050**	3,215	**59,942**	63,219
Japanese Yen	**51,104**	55,091	**9,150**	9,620
Euros	**60**	309	**1,337**	7,299
			70,429	80,138
Net long position			**$ 1,306**	$ 1,075

For the years ended December 31, 2018 and 2017, the exchange rates used to translate foreign currency denominated assets and liabilities into Mexican pesos are as follows:

	Amounts in Mexican pesos	
	2018	2017
U.S. Dollar	**19.6512**	19.66290
Japanese Yen	**0.17906**	0.17463
Euros	**22.46918**	23.60629

On March 13, 2019, the date of issuance of these financial statements, the exchange rate is $19.3320 Mexican pesos per U.S. Dollar, $0.1735 Mexican pesos per Japanese Yen and $21.8500 Mexican pesos per euro.

In conformity with Banxico Circular 3/2012, the currency risk position of credit institutions at the end of each day, both on a combined basis and in each foreign currency, may not exceed 15% of the basic regulatory capital requirement. At December 31, 2018 and 2017, the Bank complies with this requirement.

6. Cash and cash equivalents

An analysis of cash and cash equivalents at December 31, 2018 and 2017 is as follows:

	2018	2017
Cashier, bills and coins	**$ 1**	$ 1
Deposits in domestic and foreign banks (a)	**945**	4,285
Deposits in Banxico (b)	**12,334**	12,330
Restricted cash and cash equivalents(c)	**67**	-
Other restricted cash and cash equivalents (d)	**400**	-
	$ 13,747	$ 16,616

a) Deposits in domestic and foreign banks

An analysis of this caption at December 31, 2018 and 2017, is as follows:

		2018		2017	
Currency	Characteristics	**Foreign currency (thousands)**	**Mexican pesos**	Foreign currency (thousands)	Mexican pesos
Mexican pesos	Demand checking accounts	**-**	**$ 41**	-	$ 4
U.S. dollar	Demand checking accounts	**33,480**	**658**	210,515	4,139
Japanese Yen	Demand checking accounts	**14,500**	**3**	14,539	3
Euros	Demand checking accounts	**10,846**	**243**	5,904	139
			$ 945		$ 4,285

b) Deposits in Banxico

Banxico requires credit institutions to make a monetary regulation deposit based on their total traditional deposits in Mexican pesos. Such deposits have no set term and bear interest payable every 27, 28, 29 or 30 days, at the Target Rate published by Banxico.

At December 31, 2018 and 2017, the Bank monetary regulation deposits in Banxico amounts to $12,334 and $12,330, respectively; the target rate to those dates was of 8.28% and 7.27%, respectively.

c) Restricted cash and cash equivalents

As of December 31, 2018, the restricted funds are comprised for the compensation of currencies to be received and currencies to be delivered, as follows:

Currency	Currency:	2018 Foreign currency (thousands)	2018 Mexican pesos
USD	**Currency purchase 48 hours**	**5,000**	**$ 98**
USD	**Currency sale 48 hours**	**(5,000)**	**(98)**
Euros	**Currency purchase 96 hours**	**2,974**	**67**
		2,974	**$ 67**

As of December 31, 2017, the Bank did not celebrate currency purchase and sale transactions.

As of December 31, 2018 and 2017, the interests gained corresponding to cash and cash equivalents amounted to $981 and $872, respectively (Note 26).

d) Other restricted cash and cash equivalents

At December 31, 2018, other restricted cash and cash equivalents correspond to restricted investments by the increase in the Maximum Obligation (FRS D3).

7. Investment securities

An analysis of investments in securities at December 31, 2018 and 2017, is as follows:

a) Trading securities

	2018				2017			
Unrestricted securities	**Acquisition cost**	**Interest**	**Fair value adjustment gain (loss)**	**Fair value**	Acquisition cost	Interest	Fair value adjustment gain (loss)	Fair value
CETES	**-**	**-**	**-**	**-**	$ 272	$ -	$ -	$ 272
BONDES	**$ 3,468**	**$ 14**	**$ 7**	**$ 3,489**	9,178	26	18	9,222
Stock certificates	**152**	**1**	**-**	**153**	151	-	-	151
Investment funds	**47**	**-**	**-**	**47**	1,433	-	-	1,433
	3,667	**15**	**7**	**3,689**	11,034	26	18	11,078
Restricted securities								
CETES	**6,000**	**104**	**(1)**	**6,103**	4,596	-	-	4,596
Fixed-rate bonds	**659**	**3**	**(40)**	**622**	323	1	(5)	319
BONDES	**205,305**	**637**	**250**	**206,192**	203,108	547	382	204,037
Stock certificates	**10,768**	**28**	**(35)**	**10,761**	649	1	(10)	640
Udibonos	**3,854**	**8**	**(103)**	**3,759**	3,880	7	(39)	3,848
Stock certificates (GF)	**7,513**	**85**	**(367)**	**7,231**	5,920	68	(171)	5,817
Deposit certificates	**1,512**	**7**	**(1)**	**1,518**	715	3	-	718
BPAS	**65,233**	**1,593**	**(241)**	**66,585**	63,428	1,463	(357)	64,534
BPAGT	**20,257**	**261**	**(5)**	**20,513**	5,794	52	(4)	5,842
BPAG	**9,159**	**16**	**(8)**	**9,167**	-	-	-	-
	330,260	**2,742**	**(551)**	**332,451**	288,413	2,142	(204)	290,351
	$ 333,927	**$ 2,757**	**$ (554)**	**$ 336,140**	$ 299,447	$ 2,168	$ (186)	$ 301,429

The restricted securities at December 31, 2018, correspond to collateral granted in repo transactions for $332,451, while for 2017, $289,820 correspond to collateral granted in repo transactions and $531 to value date purchases.

b) Avaliable-for-sale securities

Unrestricted securities	2018 Cost of acquisition	2018 Interests	2018 Valuation	2018 Fair Value	2017 Cost of acquisition	2017 Interests	2017 Valuation	2017 Fair Value
Federal Government Bonds (USD)	**$ 824**	**$ 15**	**$ (89)**	**$ 750**	$ 1,963	$ 20	$ (32)	$ 1,951
Federal Government Bonds (USD) (1)	**1,138**	**20**	**(123)**	**1,035**	-	-	-	-
EUROBONOS (USD)	**-**	**-**	**-**	**-**	1,207	12	(46)	1,173
EUROBONOS (USD) (1)	**1,611**	**16**	**(163)**	**1,464**	-	-	-	-
Stock Certificates (GF) (1)	**4,948**	**178**	**(276)**	**4,850**	335	13	(8)	340
Private stock certificates (1)	**902**	**13**	**(39)**	**876**	-	-	-	-
Deposit certificates	**300**	**2**	**-**	**302**	-	-	-	-
Stock Certificates States and Municipalities (1)	**2,018**	**12**	**(51)**	**1,979**	-	-	-	-
Foreign debt securities (1)	**181**	**1**	**(1)**	**181**	-	-	-	-
	$ 11,922	**$ 257**	**$ (742)**	**$ 11,437**	$ 3,505	$ 45	$ (86)	$ 3,464

(1) Investments subject to derivative financial instruments hedging. As of December 31, 2018 and 2017, the effects of the valuation are as follows:

	2018	2017
Valuation of available-for-sale securities	**$ (742)**	$ (86)
Result from valuation attributable to the hedged risk (1)	**(217)**	13
Other	**(4)**	(4)
Result from valuation of available-for-sale securities (Earned capital)	**$ (963)**	$ (77)

(1) Recognized in financial intermediation.

c) Held-to-maturity securities

Unrestricted securities:	Maturity	2018	2017
Special 20-years CETES (a)	January 2019	**$ 5,886**	$ 5,433
Stock certificates	May 2019 and May 2023	**5,559**	-
Private stock certificates	May 2020 and April 2023	**2,565**	1,405
Deposit certificate	March 2019 and May 2022	**2,313**	4,042
Federal Government Securities Certificates	October 2019 and April 2023	**1,596**	594
		17,919	11,474
Restricted securities:			
Federal Government Securities Certificates	November 2021	**145**	-
		$ 18,064	$ 11,474

(a) Special government securities, which bear interest at the equilibrium interbank interest rate (TIIE, for its acronym in Spanish) and obtained by the Institution for the restructuring or capitalization of loans granted previously.

As of December 31, 2018 and 2017, the amount of accrued interest not collected from held to maturity securities amounts to $90 and $56, respectively.

For the years ended December 31, 2018 and 2017, interest income on investments in securities was $28,472 and $21,298, respectively (Note 26).

8. Repurchase / resell agreements

a) Analysis

An analysis of security repurchase / resell agreements at December 31, 2018 and 2017, is shown as follows:

	2018		2017	
	Debtor and collateral securities under security repurchase agreements	**Creditors under security repurchase agreements**	Debtor and collateral securities under security repurchase agreements	Creditors under security repurchase agreements
Debtors under security repurchase agreements				
Mexican treasury certificates CETES	**$ 500**	**$ 6,104**	$ 685	$ 4,101
Fixed-rate bonds	**150**	**662**	-	288
BPAS	**3,872**	**66,826**	5,502	64,892
BPAG	**178**	**9,174**	150	-
BPAGT	**-**	**20,518**	-	5,846
CEBIC	**500**	**-**	500	-
Stock certificates (GF)	**-**	**7,743**	-	5,989
Stock certificates	**-**	**10,796**	-	650
Deposit certificates	**-**	**1,519**	-	717
Mexican Government development bonds (BONDES)	**1,000**	**205,942**	2,432	203,653
Udibonos	**-**	**3,886**	-	3,886
	6,200	**333,146**	9,269	290,022
Less:				
Collateral securities sold or delivered in guarantee (1)				
Fixed-rate bonds	**150**		-	
CEBIC	**500**		500	
CETES	**290**		416	
BPAGT	**-**		-	
BONDES	**1,000**		931	
BPAS	**3,872**		5,002	
BPAG	**178**		150	
	$ 5,990		$ 6,999	
Debtors under security repurchase agreements (debit balance)	**$ 210**		$ 2,270	

(1) At December 31, 2018 and 2017 the effect of valuation of the collateral sold or pledged in guarantee is $(7) and $9, respectively.

The collateral received by the Bank, as well as the collateral received and sold or pledged in guarantee by the Bank, is presented in memorandum accounts (Note 31).

b) Interests on security repurchase agreements

For the years ended December 31, 2018 and 2017, the interest earned on security repurchase agreements is $1,618 and $1,018, respectively, while interest paid on security repurchase agreements is $26,847 and $19,524, respectively (Note 26).

c) Terms and securities under repurchase agreements

The average term of security repurchase agreements at December 31, 2018 and 2017, ranges between 2 and 36 days and the main securities are as follows:

- Mexican treasury certificates (CETES, for its acronym in Spanish)
- Savings protection bonds (BPAS, for its acronym in Spanish)
- Mexican government development bonds (BONDES, for its acronym in Spanish)
- Domestic senior notes (CEBURES, for its acronym in Spanish)
- Segregated Road Indemnity Securities Certificates (CEBICS, for its acronym in Spanish)
- Fixed-rate bonds (Bono TF, for its acronym in Spanish)
- Promissory notes with interest payable at maturity (PRLVs, for its acronym in Spanish)
- Savings protection bonds with monthly interest payouts and interest rate for further reference (BPAG, for its acronym in Spanish)
- Savings protection bonds with quaterly interest payouts and interest rate for further reference (BPAGT, for its acronym in Spanish)
- Deposit certificates (CEDES, for its acronym in Spanish)

9. Derivatives and hedging activities

At December 31, 2018 and 2017, an analysis of the Bank's transactions with derivative financial instruments is as follows:

	2018				
	Amount		Presentation		
Trading purposes:	**Asset**	**Liability**	**Asset**	**Liability**	**Net**
Trading swaps:					
U.S. Dollar/Peso	**$ 1,791**	**$ 1,077**	**$ 714**	**-**	**$ 714**
Peso/U.S. Dollar	**5,005**	**8,040**	**-**	**$ 3,035**	**(3,035)**
U.S. Dollar/U.S. Dollar	**13,075**	**12,501**	**1,477**	**903**	**574**
UDIS/Peso	**2,776**	**1,539**	**1,237**	**-**	**1,237**
Peso/UDIS	**1,539**	**2,771**	**-**	**1,232**	**(1,232)**
Japanese Yen/Peso	**9,627**	**2,294**	**7,333**	**-**	**7,333**
Interest rate	**33,513**	**33,241**	**2,141**	**1,869**	**272**
	67,326	**61,463**	**12,902**	**7,039**	**5,863**
Forwards for trading purposes					
Purchase:					
U.S. Dollar/Peso	**1,526**	**1,574**	**-**	**48**	**(48)**
Euro/Peso	**456**	**490**	**-**	**44**	**(44)**
	1,972	**2,064**	**-**	**92**	**(92)**
Sales:					
Peso/U.S. Dollar	**1,576**	**1,526**	**50**	**-**	**50**
Peso/ Euro	**456**	**446**	**10**	**-**	**10**
	2,032	**1,972**	**60**	**-**	**60**
Total for trading purposes	**71,330**	**65,499**	**12,962**	**7,131**	**5,831**

	2018				
	Amount		Presentation		
	Asset	Liability	Asset	Liability	Net
For hedging purposes:					
Fair value swap hedges:					
UDIS/Peso	8,843	5,460	3,407	24	3,383
Peso/UDIS	10,378	11,913	-	1,535	(1,535)
U.S. Dollar/Peso	3,217	2,315	902	-	902
Peso/U.S. Dollar	3,202	3,778	-	576	(576)
Interest rate	74,211	69,249	7,226	2,264	4,962
	99,851	92,715	11,535	4,399	7,136
Cash flow swap hedges:					
Peso/Peso	390	381	9	-	9
U.S. Dollar /Peso	1,390	901	489	-	489
	1,780	1,282	498	-	498
Forwards for held-for- fair value hedges					
Euro/Peso	190	208	-	18	(18)
	190	208	-	18	(18)
Total for hedging purposes	101,821	94,205	12,033	4,417	7,616
	$ 173,151	$ 159,704	$ 24,995	$ 11,548	$ 13,447

	2017				
	Amount		Presentation		
Trading purposes:	Asset	Liability	Asset	Liability	Net
Trading swaps:					
U.S. Dollar/Peso	$ 2,029	$ 1,229	$ 800	$ -	$ 800
Peso/U.S. Dollar	5,228	8,338	-	3,110	(3,110)
U.S. Dollar/U.S. Dollar	12,933	12,352	1,739	1,158	581
UDIS/Peso	3,282	1,878	1,404	-	1,404
Peso/UDIS	1,878	3,277	-	1,399	(1,399)
Interest rate	33,276	32,917	2,014	1,655	359
	58,626	59,991	5,957	7,322	(1,365)
Forwards for trading purposes					
Purchase:					
U.S. Dollar/Peso	4,158	4,068	92	2	90
Euro/Peso	2,081	1,927	154	-	154
	6,239	5,995	246	2	244
Sales:					
Peso/U.S. Dollar	4,083	4,158	10	85	(75)
Peso/ Euro	1,952	2,081	-	129	(129)
	6,035	6,239	10	214	(204)
Total for trading purposes	70,900	72,225	6,213	7,538	(1,325)
For hedging purposes:					
Fair value swap hedges:					
UDIS/Peso	8,138	4,891	3,263	16	3,247
Peso/UDIS	4,706	5,937	-	1,231	(1,231)
U.S. Dollar/Peso	3,279	2,357	922	-	922
Japanese Yen/Peso (1)	9,621	1,800	7,821	-	7,821
Interest rate	76,797	74,073	4,732	2,008	2,724
	102,541	89,058	16,738	3,255	13,483
Cash flow swap hedges:					
Peso/Peso	447	445	2	-	2
U.S. Dollar /Peso	1,346	843	503	-	503
	1,793	1,288	505	-	505
Forwards for held-for- fair value hedges					
Euro/Peso	4,060	3,905	155	-	155
	4,060	3,905	155	-	155
Total for hedging purposes	108,394	94,251	17,398	3,255	14,143
	$ 179,294	$ 166,476	$ 23,611	$ 10,793	$ 12,818

The unrealized gains or losses on derivatives, and the hedged items, are recognized in the Intermediation income caption. For the year ended December 31, 2018 and 2017 the Bank recorded a losses of $212 and profits for $80, respectively (Note 27). At December 31, 2018 and 2017, the effectiveness of the Bank's hedges is in the range between 80% and 125% required by CNBV accounting criteria.

At December 31, 2018 and 2017, an analysis of the notional amount, accrued interest and valuation of the Bank's position in held-for-trading derivatives and derivatives for hedging purposes is as follows:

	2018			
	Notional amount	**Interest**	**Valuation**	**Fair value**
Swaps for trading:				
Swaps U.S Dollar/Peso				
Asset –U.S. Dollar	**$ 1,551**	**$ 1**	**$ 239**	**$ 1,791**
Liability – Peso	**1,020**	**-**	**57**	**1,077**
	531	**1**	**182**	**714**
Swaps Peso/U.S. Dollar				
Asset – Peso	**5,452**	**41**	**(488)**	**5,005**
Liability – U.S. Dollar	**7,570**	**61**	**409**	**8,040**
	(2,118)	**(20)**	**(897)**	**(3,035)**
Swaps U.S. Dollar/U.S. Dollar				
Asset – U.S. Dollar	**10**	**160**	**12,905**	**13,075**
Liability – U.S. Dollar	**9**	**151**	**12,341**	**12,501**
	1	**9**	**564**	**574**
Swaps UDIS/Peso	**2,608**	**14**	**154**	**2,776**
Asset – UDIS	**1,539**	**-**	**-**	**1,539**
Liability – Peso	**1,069**	**14**	**154**	**1,237**
Swaps Peso/UDIS				
Asset – Peso	**1,539**	**-**	**-**	**1,539**
Liability – UDIS	**2,608**	**13**	**150**	**2,771**
	(1,069)	**(13)**	**(150)**	**(1,232)**
Swaps YEN/Peso[1]				
Asset – YEN	**6,625**	**3**	**2,999**	**9,627**
Liability – Peso	**384**	**2**	**1,908**	**2,294**
	6,241	**1**	**1,091**	**7,333**
Interest rate swaps				
Asset	**201**	**842**	**32,470**	**33,513**
Liability	**201**	**826**	**32,214**	**33,241**
	-	**16**	**256**	**272**
Total for trading swaps	**4,655**	**8**	**1,200**	**5,863**
Forwards for trading purposes:				
Purchase:				
Asset – U.S. Dollar	**1,547**	**-**	**(21)**	**1,576**
Liability – Peso	**1,644**	**-**	**(70)**	**1,574**
	(97)	**-**	**49**	**(48)**
Asset – Euro	**446**	**-**	**-**	**446**
Liability – Peso	**503**	**-**	**(13)**	**490**
	(57)	**-**	**13**	**(44)**
Sales:				
Asset – Peso	**1,646**	**-**	**(70)**	**1,576**
Liability – U.S. Dollar	**1,547**	**-**	**(21)**	**1,526**
	99	**-**	**(49)**	**50**
Asset – Peso	**468**	**-**	**(12)**	**456**
Liability – Euro	**446**	**-**	**-**	**446**
	22	**-**	**(12)**	**10**
Total forwards for trading purposes	**(33)**	**-**	**1**	**(32)**
Net position for trading purposes	**4,622**	**8**	**1,201**	**5,831**

	2018			
	Notional amount	Interest	Valuation	Fair value
Fair value swap hedges:				
Swaps UDIS/Peso				
Asset – UDIS	7,655	1,456	(268)	8,843
Liability – Peso	5,556	31	(127)	5,460
	2,099	1,425	(141)	3,383
Swaps Peso/UDIS				
Asset – Peso	9,912	25	441	10,378
Liability – UDIS	11,475	97	341	11,913
	(1,563)	(72)	100	(1,535)
Swaps U.S. Dollar/Peso				
Asset – U.S. Dollar	3,274	10	(67)	3,217
Liability – Peso	2,448	4	(137)	2,315
	826	6	70	902
Swaps Peso/U.S. Dollar				
Asset – Peso	2,705	7	490	3,202
Liability – Peso/U.S. Dollar	2,749	38	991	3,778
	(44)	(31)	(501)	(576)
Interest rate swaps				
Asset – Peso	41,255	1,694	31,262	74,211
Liability – Peso	41,255	778	27,216	69,249
	-	916	4,046	4,962
Total fair value swap hedges	1,318	2,244	3,574	7,136
Cash flow hedges:				
Interest rate swaps				
Asset – Peso	380	7	3	390
Liability – Peso	378	-	3	381
	2	7	-	9
Interest rate swaps				
Asset – U.S. Dollar	1,354	3	33	1,390
Liability – Peso	917	16	(32)	901
	437	(13)	65	489
Total cash flow hedges	439	(6)	65	498
Forwards (Fair value swap hedges):				
Asset – Euro	189	-	1	190
Liability – Peso	236	-	(28)	208
Total	(47)	-	29	(18)
Total for hedging purposes	$ 1,710	$ 2,238	$ 3,668	$ 7,616

	2017			
	Notional amount	Interest	Valuation	Fair value
Swaps for trading:				
Swaps U.S Dollar/Peso				
Asset –U.S. Dollar	$ 1,700	$ 4	$ 325	$ 2,029
Liability – Peso	1,117	4	108	1,229
	583	-	217	800
Swaps Peso/U.S. Dollar				
Asset – Peso	5,552	47	(371)	5,228
Liability – U.S. Dollar	7,727	47	564	8,338
	(2,175)	-	(935)	(3,110)
Swaps U.S. Dollar/U.S. Dollar				
Asset – U.S. Dollar	-	228	12,705	12,933
Liability – U.S. Dollar	-	219	12,133	12,352
	-	9	572	581
Swaps UDIS/Peso	2,959	16	307	3,282
Asset – UDIS	1,867	12	(1)	1,878
Liability – Peso	1,092	4	308	1,404
Swaps Peso/UDIS	1,867	12	(1)	1,878
Asset – Peso	2,959	16	302	3,277
Liability – UDIS	(1,092)	(4)	(303)	(1,399)

	2017			
	Notional amount	Interest	Valuation	Fair value
Interest rate swaps				
Asset	15	801	32,460	33,276
Liability	15	784	32,118	32,917
	-	17	342	359
Total swaps for trading	(1,592)	26	201	(1,365)
Forwards for trading purposes:				
Purchase:				
Asset – U.S. Dollar	4,217	-	(59)	4,158
Liability – Peso	4,324	-	(256)	4,068
	(107)	-	197	90
Asset – Euro	2,077	-	4	2,081
Liability – Peso	1,989	-	(62)	1,927
	88	-	66	154
Sales:				
Asset – Peso	4,340	-	(257)	4,083
Liability – U.S. Dollar	4,217	-	(59)	4,158
	123	-	(198)	(75)
Asset – Euro	2,015	-	(63)	1,952
Liability – Peso	2,077	-	4	2,081
	(62)	-	(67)	(129)
Total forwards for trading purposes	42	-	(2)	40
Net position for trading purposes	(1,550)	26	199	(1,325)
Fair value swap hedges:				
Swaps UDIS/Peso				
Asset – UDIS	6,734	1,278	126	8,138
Liability – Peso	4,935	26	(70)	4,891
	1,799	1,252	196	3,247
Swaps Peso/UDIS				
Asset – Peso	4,699	8	(1)	4,706
Liability – UDIS	5,884	47	6	5,937
	(1,185)	(39)	(7)	(1,231)
Swaps U.S. Dollar/Peso				
Asset – U.S. Dollar	3,311	7	(39)	3,279
Liability – Peso	2,491	10	(144)	2,357
	820	(3)	105	922
Swaps Japanese Yen /Peso (1)				
Asset – Japanese Yen	6,461	2	3,158	9,621
Liability – Peso	384	2	1,414	1,800
	6,077	-	1,744	7,821
Interest rate swaps				
Asset – Peso	52,160	1,425	23,212	76,797
Liability – Peso	52,160	669	21,244	74,073
	-	756	1,968	2,724
Total fair value swap hedges	7,511	1,966	4,006	13,483
Cash flow hedges:				
Interest rate swaps				
Asset – Peso	425	8	14	447
Liability – Peso	427	3	15	445
	(2)	5	(1)	2
Interest rate swaps				
Asset – U.S. Dollar	1,299	2	45	1,346
Liability – Peso	844	18	(19)	843
	455	(16)	64	503
Total cash flow hedges	453	(11)	63	505
Forwards for Fair value swap hedges:				
Asset – Euro	4,048	-	13	4,061
Liability – Peso	4,092	-	(186)	3,906
Total	(44)	-	199	155
Total for hedging purposes	$ 7,920	$ 1,955	$ 4,268	$ 14,143

The Bank has granted guarantees in the form of cash related to transactions with derivatives. These guarantees total $786 and $1,384 at December 31, 2018 and 2017, respectively (Note 13). In addition, the Bank has received guarantees in cash for $5,862 and $4,684, respectively, which are included in the balance sheet as part of the caption Creditors on collateral securities received in cash.

At December 31, 2018 and 2017, the Bank did not provide guarantees on debt instruments.

At December 31,2018 and 2017, the Bank has debt instrument collaterals for $1,623 and $489 respectively, which are reported in Assets in custody or administration (Note 30).

The Bank's derivatives involve liquidity, market, credit and legal risks. The internal control policies and procedures for managing the risks inherent to transactions with derivative financial instruments are described in Note 33.

(1) Japanese Yen – Mexican peso cross currency and rate swap

At December 31, 2018, Banobras has entered into an extinguishing amortizing cross currency and rate swap for a notional amount of 37 thousand million Japanese Yens with maturity on December 29, 2033 and under which it receives Japanese Yens and delivers Mexican pesos. The related transaction contains a clause establishing the extinguishment of all rights and obligations under the instrument should the Mexican Federal Government be found to be in full or partial default on any portion of its foreign debt. This transaction was designated intentionally as a hedge as of its inception.

This transaction covered an issuance of bonds denominated in Japanese yen, which predicted flows are equal to those of the asset part of the swap; however, as of June 2018, it was reclassified to the trading portfolio. The valuation effect of the hedged item on the reclassification date amounted to 14,578 million Japanese Yen ($2,592), which was recognized as a deferred loan that will be amortized in results over the remaining term of the issuance of the bonds aforementioned.

The valuation of this derivative financial instrument acquired intentionally for hedging purposes is performed using an internal model authorized by the Bank's Comprehensive Risk Management Committee. Using this model, the fair value of the instrument at December 31, 2018 increased to $7,333 ($7,821 in December, 2017). Such amount includes the valuation of the extinguishment clause, which represented an unrealized loss at such date of $1,927 ($1,436, in December, 2017).

In the transaction, Banobras pays a TIIE rate - 0.66% on an initial notional amount of $3,837 million of Mexican pesos, redeemable in 10 installments during the life of the transaction, while the counterparty pays a fixed rate of 3% on a notional amount of 37 billion Japanese Yen, amortized in a single payment at maturity. The balance of the notional amount in Mexican pesos at December 31, 2018 and 2017 amounted to $384.

- **Agreement extinguishment clause**

The derivative operation includes a clause that contemplates the anticipated extinction of rights and obligations in the event of the materialization of any of the following credit events referred to the debt other than the domestic debt of the Government of the United Mexican States.

- Non-payment of at least one million U.S. Dollars, after expiry of a grace period.

- Early obligation: early maturity for at least 10 million U.S. Dollars.

- Unawareness or moratorium: unawareness or suspension of payments for an amount of at least 10 million U.S. Dollars.

- Restructuring: reduction of interest or principal, deferred of payment of interest or principal, payment subordination, currency exchange, among others.

10. Valuation adjustment for financial asset hedges

The Bank has certain loan portfolios that form part of fair value hedges for interest rate risk. At December 31, 2018 and 2017, the valuation effect attributable to the risk being hedged of the loan portfolio is $555 and $694, respectively (credit balance). The derivative positions covering said portfolios have an aggregate notional of $32,662 and $70,893, respectively.

11. Loan portfolio

a) Analysis of the performing and past-due loan portfolio by loan type

An analysis of the loan portfolio at December 31, 2018 and 2017 is as follows:

	2018			
	Principal	Interest	Valuation(1)	Total
Commercial loans				
Business and commercial	$ 124,545	$ 1,127	$(2,415)	$ 123,257
Financial institutions	27,714	252	-	27,966
Government entities	282,757	841	(4,348)	279,250
Residential mortgages				
Medium class and residential	80	-	-	80
Loans granted as financial agent of the Federal Government	579	2	-	581
Total current loan portafolio	435,675	2,222	(6,763)	431,134
Past-due loan portafolio				
Commercial loans				
Business and comercial	2,273	28	-	2,301
Consumer loans	9	-	-	9
Residential mortgages				
Medium class and residential	40	1	-	41
Total past-due loan portafolio	2,322	29	-	2,351
Total loan portafolio	$ 437,997	$ 2,251	$(6,763)	$ 433,485

(1) This amount corresponds to the valuation of hedged risks in individual loans that are associated with fair value hedges.

	2017			
	Performing loan portfolio			
	Principal	Interest	Valuation(1)	Total
Commercial loans				
Business and commercial	$ 113,622	$ 985	$(1,210)	$ 113,397
Financial institutions	31,641	202	(7)	31,836
Government entities	248,571	896	(3,313)	246,154
Residential mortgages				
Medium class and residential	89	-	-	89
Loans granted as financial agent of the Federal Government	671	2	-	673
Total current loan portafolio	394,594	2,085	(4,530)	392,149
Past-due loan portafolio				
Commercial loans				
Business and comercial	2,211	31	-	2,242
Consumer loans	9	-	-	9
Residential mortgages				
Medium class and residential	45	1	-	46
Total past-due loan portafolio	2,265	32	-	2,297
Total loan portafolio	$ 396,859	$ 2,117	$(4,530)	$ 394,446

(1) This amount corresponds to the valuation of hedged risks in individual loans that are associated with fair value hedges.

Interest and commissions earned by Banobras on its loan portfolio for the years ended December 31, 2018 and 2017 total $36,651 and $30,463, respectively (Note 26).

b) Analysis of the loan portfolio by currency

An analysis of the loan portfolio by currency at December 31, 2018 and 2017 is as follows:

	2018			
	Mexican pesos	**Foreign currency translated into Mexican pesos**	**UDIS translated into Mexican pesos**	**Total**
Current loan portfolio:				
Commercial loans				
Business and commercial	**$ 91,772**	**$ 29,938**	**$ 3,962**	**$ 125,672**
Financial institutions	**22,868**	**5,098**	**-**	**27,966**
Government entities	**278,445**	**-**	**5,153**	**283,598**
Residential mortgages				
Medium class and residential	**80**	**-**	**-**	**80**
Loans granted as financial agent of the Federal Government	**-**	**581**	**-**	**581**
	393,165	**35,617**	**9,115**	**437,897**
Valuation of hedged items:				
Commercial loans				
Business and comercial	**(2,461)**	**-**	**46**	**(2,415)**
Financial institutions	**(4,204)**	**-**	**(144)**	**(4,348)**
Total valuation of hedged items	**(6,665)**	**-**	**(98)**	**(6,763)**
	386,500	**35,617**	**9,017**	**431,134**
Past-due porfolio:				
Commercial loans				
Business and commercial	**152**	**2,149**	**-**	**2,301**
Consumer loans	**9**	**-**	**-**	**9**
Residential mortgages				
Medium class and residential	**41**	**-**	**-**	**41**
	202	**2,149**	**-**	**2,351**
Total Loan portfolio	**$ 386,702**	**$ 37,766**	**$ 9,017**	**$ 433,485**

	2017			
	Mexican pesos	Foreign currency translated into Mexican pesos	UDIS translated into Mexican pesos	Total
Current loan portfolio:				
Commercial loans				
Business and commercial	$ 86,352	$ 26,773	$ 1,482	$ 114,607
Financial institutions	26,739	5,104	-	31,843
Government entities	244,121	-	5,346	249,467
Residential mortgages				
Medium class and residential	89	-	-	89
Loans granted as financial agent of the Federal Government	-	673	-	673
	357,301	32,550	6,828	396,679
Valuation of hedged items:				
Commercial loans				
Business and commercial	(1,160)	-	(50)	(1,210)
Financial institutions	(7)	-	-	(7)
Government entities	(3,368)	-	55	(3,313)
Total valuación of hedged items	(4,535)	-	5	(4,530)
	352,766	32,550	6,833	392,149
Past-due porfolio:				
Commercial loans				
Business and commercial	379	1,863	-	2,242
Consumer loans	9	-	-	9
Residential mortgages				
Medium class and residential	46	-	-	46
	434	1,863		2,297
Total Loan portfolio	$ 353,200	$ 34,413	$ 6,833	$ 394,446

c) Analysis of risk concentration

i) Loans constituting common risk

In conformity with article 54 of the CNBV's general regulatory provisions applicable to credit institutions, loans granted to a single person or to a group of persons who are considered as a single person because they represent a common risk, are subject to maximum capital limits computed using the following table.

% limit on basic regulatory capital	Capitalization level of loans
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 backed by unconditional and irrevocable guarantees that cover both the principal and interest and other changes, granted by foreign financial institutions of at least investment grade, may exceed the maximum limit applicable to the entity. However, in no case may these loans represent more than 100% of the Bank's basic regulatory capital, per each person or group of persons constituting common risk.

At December 31, 2018 and 2017, the Bank has met the aforementioned limits.

ii) Principal proprietary loans [1]

The sum of loans granted to the Bank's three largest borrowers, those granted exclusively to multiple-type banking institutions and those taken out by state-owned entities and bodies, including public trusts, may not exceed 100% of the Bank's basic regulatory capital.

At December 31, 2018 and 2017, the maximum amount of financing due from the Bank's three largest borrowers subject to 100% of the capital aggregated $52,645 and $53,056, respectively, which represented 1.0 and 1.1, respectively, of the Bank's basic regulatory capital. Considering only the loans subject to the concentration limit, at December 31, 2018 and 2017, the maximum amount of financing due from the Bank's three largest borrowers, whose sum must not exceed 100% of the regulatory capital, amounted to $26,131 and $25,095, respectively, which respectively represented 51.2% and 53.3% the Bank's basic regulatory capital.

At December 31, 2018 the Bank granted funding for 23 projects of $285,935, which exceed 10% of core capital and represent 5.6 times the basic capital, while at December 31, 2017, the Bank granted funding for 23 projects of $267,157, which exceed 10% of the basic capital and represent 5.7 times the basic capital.

At December 31, 2018, the Bank has 5 loans subject to the concentration limit exceeding 10% of the basic capital, amounting to $37,531 and representing 0.74 times the basic capital, while at December 31, 2017, the Bank had 5 loans subject to the concentration limit exceeding 10% of the basic capital, amounting to $35,602 and representing 0.76 times the basic capital.

iii) By economic sector

At December 31, 2018 and 2017, an analysis of the Bank's loan portfolio, based on the activity of the borrowers, is as follows:

	2018		2017	
	Amount	**%**	Amount	%
Federal government (1)	**$ 55,714**	**13**	$ 54,513	14
State governments, decentralized agencies state-owned entities, Federal agencies and Federal entities	**199,380**	**46**	163,325	41
Other public financial entities	**3,157**	**1**	3,973	1
Multiple-type banking institutions	**22,868**	**5**	26,739	6
Other private financial entities	**5,098**	**1**	5,104	1
National entities	**127,053**	**29**	115,794	29
Individuals	**130**	**-**	144	-
Public promotion funds (1)	**25,928**	**5**	28,329	7
Foreign companies	**920**	**-**	1,055	1
	440,248	**100**	398,976	100
Valuation of hedged items	**(6,763)**	**-**	(4,530)	-
	$ 433,485	**100**	$ 394,446	100

(1) At December 31, 2018 and 2017, the portfolio of loans extended to the Federal Government is as shown in the next page.

[1] In accordance with last paragraph of Article 57 of the General Provisions applicable to Credit Institutions, in this section, all references to core capital or net capital correspond to the amount of the third quarter of 2018 (September 2018).

	2018			2017		
	Principal	**Interest**	**Total**	Principal	Interest	Total
Loans granted as Federal Government Agent	**$ 579**	**$ 2**	**$ 581**	$ 671	$ 2	$ 673
Proprietary portfolio	**80,767**	**294**	**81,061**	81,885	284	82,169
	81,346	**296**	**81,642**	82,556	286	82,842
Valuation of hedged items	**(451)**	**-**	**(451)**	(334)	-	(334)
	$ 80,895	**$ 296**	**$ 81,191**	$ 82,222	$ 286	$ 82,508

iv) By region

At December 31, 2018 and 2017, an analysis of the Bank's loan portfolio, based on the regional location of the borrowers, is as follows:

	2018		2017	
Zone	**Amount**	**Concentration percentage**	Amount	Concentration percentage
Loan portfolio:				
Qualifiable				
Central	**$ 124,798**	**28%**	$ 122,517	31%
Northern	**100,103**	**23%**	80,432	20%
Southern	**130,548**	**30%**	109,211	27%
Exempted				
Central	**55,713**	**13%**	54,484	14%
Reserved at 0.5%				
Central	**29,086**	**6%**	32,332	8%
	440,248	**100%**	398,976	100%
Valuation of hedged items	**(6,763)**		(4,530)	
	$ 433,485	**100%**	$ 394,446	100%

d) Analysis of economic environment (troubled loan portfolio)

An analysis of the Bank's troubled loan portfolio at December 31, 2018 and 2017, is as follows:

	2018			2017		
	Performing portfolio	**Past-due portfolio**	**Total**	Performing portfolio	Past-due portfolio	Total
Commercial loans						
Business and commercial	**$ 5,800**	**$ 2,301**	**$ 8,101**	$ 2,845	$ 2,242	$ 5,087
Government entities	**57**	**-**	**57**	60	-	60
Consumer loans	**-**	**9**	**9**	-	-	-
Residential mortgages						
Medium class and residential	**4**	**41**	**45**	2	55	57
Troubled loan portfolio	**5,861**	**2,351**	**8,212**	2,907	2,297	5,204
Non-troubled loan portfolio	**432,036**	**-**	**432,036**	393,772	-	393,772
Valuation of hedged items	**(6,763)**	**-**	**(6,763)**	(4,530)	-	(4,530)
	$ 431,134	**$ 2,351**	**$ 433,485**	$ 392,149	$ 2,297	$ 394,446

The Bank's troubled loan portfolio includes uncollected accrued interest of $115 and $44 at December 31, 2018 and 2017, respectively.

e) Performing restructured loans

An analysis of the Bank's performing restructured loans at December 31, 2018 and 2017, is as follows:

	2018	2017
Commercial loans		
Business and commercial	**$ 49,440**	$ 39,580
Financial institutions	**-**	517
Government entities	**116,114**	90,234
	$ 165,554	$ 130,331

At December 31, 2018 and 2017, the restructured and renewed loans are registered in the current portfolio and do not have additional guarantees; at such dates, accrued uncollected interest from this portfolio amounted to $912 and $586, respectively.

f) Past-due loan portfolio

- Aging

An analysis of aging of the past-due loan portfolio at December 31, 2018 and 2017, is as follows:

	Principal and interest 2018				
	1 to 180 days overdue	**181 to 365 days overdue**	**366 days to 2 years overdue**	**More than 2 years overdue**	**Total**
Commercial loans					
Business and commercial	**-**	**$ 228**	**-**	**$ 2,013**	**$ 2,301**
Consumer loans	**-**	**-**	**-**	**9**	**9**
Residential mortgages					
Medium class and residential	**$ 1**	**2**	**$ 1**	**37**	**41**
	$ 1	**$ 290**	**$ 1**	**$ 2,059**	**$ 2,351**

	Principal and interest 2017				
	1 to 180 days overdue	181 to 365 days overdue	366 days to 2 years overdue	More than 2 years overdue	Total
Commercial loans					
Business and commercial	$ 227	-	-	$ 2,015	$ 2,242
Consumer loans	-	-	-	9	9
Residential mortgages					
Medium class and residential	3	$ 2	$ 4	37	46
	$ 230	$ 2	$ 4	$ 2,061	$ 2,297

- Movements

At December 31, 2018 and 2017, the movements presented by the overdue loan portfolio are analyzed as follows:

	2018	2017
Beginning balance as of December 31, 2017	**$ 2,297**	$ 3,599
Increase:		
Net transfers from performing portfolio to past-due loan portfolio	**291**	463
Decrease:		
Currency valuation	**2**	92
Recoveries	**9**	1,284
Net transfers from past-due loan portfolio to performing loan portfolio	**225**	231
Condonation	**1**	158
Final balance as of December 31, 2018	**$ 2,351**	$ 2,297

g) Financial leases

At December 31 2018 and 2017, the Bank carried transactions in the form of financial leases with a total outstanding balance of $32,280 and $29,964, respectively. The Bank entered into financial lease agreements in which it agrees to acquire and assign use of the object of the lease to the lessee, in accordance with each agreement.

At December 31, 2018 and 2017, the lessees have made advance payments that were used for the construction of the leased equipment, which are recognized as part of the loan portfolio. The Bank's balance sheet includes assets to be ceded under financial leases and commitments related to the acquisition of the assets, as follows:

		2018		2017
Advances	**$**	**32,196**	$	29,857
Assets to be ceded under financial leases		**366**		3,919
Formal commitments		**431**		4,666

At December 31, 2018, the Bank did not enter into financial lease agreements, while, at December 31, 2017, the Bank entered into two lease agreements for $8,374 with a maturity term of 180 months (2032).

12. Allowance for loan losses

An analysis of the allowance for loan losses for credit risks as a result of the qualifying grade of the total portfolio, at December 31, 2018 and 2017, is as follows:

		2018		2017
Commercial loans (a)				
Business and commercial (a.1)	**$**	**4,940**	$	4,300
Financial institutions (a.2)		**497**		471
Government entities (a.3)		**1,715**		1,851
Consumer loans (b)		**9**		9
Residential mortgages				
Medium class and residential (c)		**30**		31
		7,191		6,662
For financial guarantees and contingent loans (d)		**438**		843
Additional reserves (e)		**3,101**		2,762
For past-due interest		**2**		-
	$	**10,732**	$	10,267

At December 31, 2018 and 2017, the loan portfolio, classified by risk grade, is shown below:

a) Commercial loans

a.1) Business and commercial

	2018				2017			
Credit risk grade	**Exposure at default**		**Expected loss**		Exposure at default		Expected loss	
A-1	**$**	**104,932**	**$**	**533**	$	97,088	$	489
A-2		**215**		**3**		5,228		55
B-1		**1,396**		**23**		955		14
B-2		**-**		**-**		723		15
B-3		**11,124**		**351**		2,050		55
C-1		**2,232**		**166**		5,745		397
C-2		**3,040**		**321**		177		18
D		**490**		**211**		2,582		929
E		**4,570**		**3,332**		2,328		2,328
Total	**$**	**127,999**	**$**	**4,940**	$	116,876	$	4,300

a.2) Financial institutions

	2018				2017			
Credit risk grade	**Exposure at default**		**Expected loss**		Exposure at default		Expected loss	
A-1	**$**	**16,269**	**$**	**119**	$	10,550	$	70
A-2		**6,599**		**93**		16,189		147
B-3		**-**		**-**		-		-
C-1		**5,098**		**285**		5,104		254
Total	**$**	**27,966**	**$**	**497**	$	31,843	$	471

a.3) Government entities

	2018				2017			
Credit risk grade	**Exposure at default**		**Expected loss**		Exposure at default		Expected loss	
A-1	**$**	**183,000**	**$**	**762**	$	136,273	$	640
A-2		**14,216**		**154**		22,691		261
B-1		**18,121**		**289**		13,256		207
B-2		**2,322**		**38**		160		4
B-3		**6,158**		**187**		18,148		495
C-1		**4,614**		**277**		5,068		235
C-2		**22**		**2**		43		5
D		**35**		**6**		17		4
Total	**$**	**228,488**	**$**	**1,715**	$	195,656	$	1,851

At December 31, 2018 and 2017, the balance of the allowance for loan losses for Government entities, in risk grade A-1, includes the Federal Government's 0.5% reserve, for $146 and $162, respectively.

At December 31, 2018 and 2017, the amount of the portfolio reserved at 0.5%, net of interest to be accrued, amounts to $31,479 and $32,332, respectively.

b) Consumer loans

	2018				2017			
Credit risk grade	**Exposure at default**		**Expected loss**		Exposure at default		Expected loss	
A-1(*)		-		-		-		-
A-2(*)		-		-		-		-
B-1(*)		-		-		-		-
E		9	$	9	$	9	$	9
Total	$	9	$	9	$	9	$	9

(*) Amounts less than one million Mexican pesos.

c) Medium class and residential

	2018				2017			
Credit risk grade	**Exposure at default**		**Expected loss**		Exposure at default		Expected loss	
A-1	**$**	**71**		**-**	$	75		-
A-2		**-**		**-**		4		-
B-2		**4**		**-**		5		-
B-3		**-**		**-**		1		-
C-1		**-**		**-**		3		-
C-2		**11**	**$**	**1**		10	$	1
D		**6**		**1**		6		1
E		**29**		**28**		31		29
Total	**$**	**121**	**$**	**30**	$	135	$	31

d) Financial guarantees and contingent loans

	2018				2017			
Credit risk grade	**Exposure at default**		**Expected loss**		Exposure at default		Expected loss	
A-1	**$**	**68,375**	**$**	**345**	$	108,619	$	484
A-2		**6,624**		**79**		17,838		237
B-1		**303**		**6**		4,611		76
B-3		**63**		**2**		244		8
C-1		**92**		**6**		-		-
D		**-**		**-**		150		38
Total	**$**	**75,457**	**$**	**438**	$	131,462	$	843

e) At December 31, 2018 and 2017, the balance of the additional reserves recognized by the CNBV are as follows:

	2018		2017	
State governments and municipal goverments	**$**	**649**	$	289
Companies (business activities)		**2,452**		2,473
	$	**3,101**	$	2,762

At December 31, 2018, the balance of the exempted Federal Government portfolio and reserved at 0.5% portfolio amounts to $55,713 and $31,479, respectively. For 2017 in this portfolio $54,513 and $32,332 were recorded, respectively.

The total graded loan portfolio at December 31, 2018 and 2017, amounted $460,040 and $475,981, which includes the commercial portfolio, the Federal Government portfolio reserved at 0.5%, the contingent portfolio and guarantees granted with induced credit.

At December 31, 2018 and 2017, the total graded loan portfolio is comprised as follows:

	2018		2017	
Graded Loan portfolio:				
Balance sheet:				
Loan portfolio	**$**	**440,248**	$	398,976
Valuation of hedged items	**(**	**6,763)**	(	4,530)
Total balance of loan portfolio		**433,485**		394,446
Accrued interest from financial leasing		**23**		29
Interest collected in advance		**25**		27
Memorandum accounts		**75,457**		131,462
		508,990		525,964
Balance (excepted Federal Goverment)	**(**	**55,713)**	(	54,513)
Valuation of hedged items		**6,763**		4,530
	(	**48,950)**	(	49,983)
Graded loan portfolio	**$**	**460,040**	$	475,981

At December 31, 2018 and 2017, the changes in the allowance for loan losses are presented below:

		2018		2017
Beginning balance as of December 31, 2017	**$**	**10,267**	$	9,113
Recognition for changes in the particular standard (1) (a)		**-**		2,215
Allowance for loan losses		**125**	(	645)
Additional reserves throughout the period (2)		**1,199**		694
Release of reserves throughout the period (3)	**(**	**859)**	(	286)
Overstatements of allowance for loan losses		**-**	(	824)
Final balance as of December 31, 2018	**$**	**10,732**	$	10,267

(1) It refers to the additional reserves recognized at December 2017, in Retained earnings, as a result of the change in methodologies in the risk measurements for the constitution of additional reserves in the Comprehensive Risk Management Manual (MAIR, acronym in Spanish).

(2) At December 31, 2018 and 2017, the Bank created additional reserves recognized by the CNBV for unforeseen risks in the credit portfolio classification methodologies in the amount of $1,199 and $694, respectively.

(3) At December 31, 2018 and 2017, the Bank applied additional reserves recognized by the CNBV for unforeseen risks in the credit portfolio rating methodologies in the amount of $859 and $286, respectively, since the assumptions for which they were created were materialized.

As of December 31, 2018 and 2017, the allowance for loan losses result for preventive provision for credit risks amounts to $467 and $2,215 respectively.

a) Changes in loan grading on specific stardard

In June 2018, the Bank adopted new risk measures, which the Comprehensive Risk Management Committee approved and incorporated into the MAIR for the constitution of additional reserves. These modifications mainly affected the credit portfolio of projects of the private sector in the construction stage, given that it was identified that the relationship between the months of delay and the progress of work, were not provided for in the specific standard.

The effect of the change in aforementioned specific standard, corresponding to 2017, was recorded into Retained earnings for $2,215, which it was reported to the CNBV. The effects are shown below:

Type of portafolio	**Previous**		**Current**		**Variation**	
Public	$	289	$	289		-
Private		258		2,473	$	2,215
Total	$	547	$	2,762	$	2,215

The impact of the change in this specific standard for 2018, was a release of reserves in the amount of $338, with a variation of $112 with respect to the amount that had been recognized with the previous specific standard.

13. Other receivable accounts, net

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An analysis of other accounts receivable at December 31, 2018 and 2017 is as follows:

	2018	2017
VAT loan portfolio transactions	$ 4,986	$ 4,743
Employee loans[1]	2,691	2,331
Debtors for collateral granted in cash[2]	786	1,384
Debtors for clearing accounts	98	588
Other accounts receivable[3]	367	801
	8,928	9,847
Allowance for doubtful accounts	(39)	(16)
	$ 8,889	$ 9,831
Balance as Agent of FOAEM mandate[4]		
	$ 218	$ 253

(1) An analysis of employee loans at December 31, 2018 and 2017 is as follows:

Loan type	2018	2017	Annual interest rate	Term
Short-term	$ 5	$ 4		Up to 24 months
Medium-term	897	797	4%	Up to 6 years
Mortgage	845	748	4% for the first 15 years and 6% for the last 5 years	Up to 20 years
Special for savings	912	750	1%	From 3 to 6 years
Special for transportation	34	29		Up to 3 years
Other	(2)	3		
	$ 2,691	$ 2,331		

(2) The Bank provided guarantees on swap derivative hedges. These guarantees are calculated based on the fair value of the portfolio, and are cash restricted. For the years ended December 31, 2018 and 2017, interest earned on these guarantees was $26 and $116, respectively (Note 26).

(3) The balance is mainly comprised by the following: Balances in favor for taxes $159 ($577 in 2017), other debts for derivative financial instruments $72 ($12 in 2017) and other debtor $136 ($212 in 2017).

(4) As of December 31, 2018 and 2017, the balance as agent of the mandate for the Support Fund for States and Municipalities (FOAEM) is comprised as follows:

	2018	2017
Asset balances:		
Proprietary		
Exchange fluctuation	$ 297	$ 334
Other	8	8
Total amounts for FOAEM	$ 305	$ 342

	2018		2017	
Liability balances:				
Proprietary				
Updating of UDIS	**$**	**77**	$	79
Other		**5**		5
		82		84
By Financial agent				
Updating of UDIS		**5**		5
		5		5
Total balances in favor of FOAEM		**87**		89
Asset as agent of the FOAEM mandate	**$**	**218**	$	253

As of December 31, 2018, the notional asset value corresponding to foreign currency liabilities of FOAEM transactions is equivalent to 34 million USD and the notional asset value in UDIS amounts to 7 million of UDIS. As of December 31, 2017, the notional asset value of foreign currency liabilities of FOAEM transactions was 38 million USD and the notional liability value in UDIS was 21 million of UDIS.

14. Property, furniture and equipment (net)

An analysis of this caption at December 31, 2018 and 2017 is as follows:

	2018			2017		
Item	**Asset value**	**Accumulated depreciation**	**Rate**	Asset value	Accumulated depreciation	Rate
Land	**$ 168**	**-**		$ 168	-	
Buildings	**468**	**$ 109**	**(1)**	468	$ 104	(1)
Office furniture and equipment	**94**	**83**	**10%**	94	80	10%
Computer equipment	**39**	**39**	**30%**	39	39	30%
Transportation equipment	**22**	**22**	**25%**	22	21	25%
Adaptations and improvements	**52**	**48**	**5 and 10%**	52	48	5 and 10%
Total fixed assets	**843**	**$ 301**		843	$ 292	
	$ 542			$ 551		

(1) This assets are depreciated according to its estimated life cycle.

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 amounted to $9 and $10, respectively.

15. Permanent investments

An analysis of this caption at December 31, 2018 and 2017 is as follows:

	2018			2017	
	Equity interest	**Acquisition cost**	**Carrying value**	Acquisition cost	Carrying value
Banco Nacional de Comercio Exterior, S.N.C.	**0.0027%**	**-**	**$ 1**	-	$ 1
Banco Latinoamericano de Exportaciones	**0.0370%**	**-**	**1**	-	1
Corporación Mexicana de Inversiones de Capital, S.A. de C.V	**6.0000%**	**$ 68**	**72**	$ 68	72
		$ 68	**$ 74**	$ 68	$ 74

16. Other assets

At December 31, 2018 and 2017, this caption consists of the following:

		2018		2017
Other assets, deferred charges and intangibles[1]	$	**378**	$	691
Labor obligations (Note 21)		**6,118**		6,192
Reconciling item	**(**	**5)**		-
Labor obligations		**6,113**		6,192
	$	**6,491**	$	6,883

[1] An analysis of other assets, deferred charges and intangibles is as follows:

Item		Balance 2017		Additions		Charges		**Balance 2018**
Balances in favor of taxes (ISR)	$	644	**$**	**316**	**$**	**644**	**$**	**316**
Service providers and supervisory entities		13		**85**		**68**		**30**
Issuance of bonds and domestic senior notes		34		**32**		**34**		**32**
	$	691	**$**	**433**	**$**	**746**	**$**	**378**

17. Deposit funding

As of December 31, 2018 and 2017, traditional deposits are as follows:

		2018		2017
Time deposits (a)	**$**	**285,750**	$	232,652
Securities issued (b)		**99,774**		130,375
	$	**385,524**	$	363,027

a) Time deposits – Money market

An analysis of this caption at December 31, 2018 and 2017, is as follows:

		2018		2017
Promissory notes with interest payable at maturity (PRLV)	**$**	**283,092**	$	229,264
U.S. Dollar time deposits		**2,658**		3,388
	$	**285,750**	$	232,652

At December 31, 2018 and 2017, the Bank issued long-term PRLVs in the amount of $8,965 and $9,561, respectively, which accrued interest amount to $4,933 and $4,633, respectively.

During 2018, interest rates paid on issues denominated in Mexican pesos ranged between 7.18% and 9.01% for the Zero Coupon Note and between 11.54% and 35.05%, for the long-term Zero Coupon Note. The fees paid for the collection in U.S. dollars ranged between 0.06% and 1.60%. The terms vary between 1 and 364 days in the case of the Zero Coupon Note, while maturity for collection in U.S. dollars ranged between 1 and 50 days.

During 2017, interest rates paid on issues denominated in Mexican pesos ranged between 5.65% and 7.62% for the Zero Coupon Note and between 11.00% and 18.20%, for the long-term Zero Coupon Note. The fees paid for the collection in U.S. dollars ranged between 0.06% and 0.70%. The terms vary between 1 and 364 days in the case of the Zero Coupon Note, while maturity for collection in U.S. dollars ranged between 1 and 112 days.

During 2018, the Bank redeemed 2,847,375,674 long-term Zero Coupon Notes (placement of a Municipality, authorized by the Mexican Central Bank through official document OFI003-22339 and 22340 dated March 8, 2018) and 3,066,196,182 long-term Zero Coupon Notes (placement of a Municipality, authorized by the Mexican Central Bank through official letters OFI003-26000, 26001, 26002 and 26003 dated November 29, 2018) while for the fiscal year 2017, the Bank redeemed 350,000,000 long-term PRLV securities (municipal placement) and was authorized by Banco de México by official document OFI003-21553 and 21554 dated December 20, 2017.

b) Debt securities issued

An analysis of the Bank's outstanding bank securities both in Mexican pesos and foreign currency at December 31, 2018 and 2017, is as follows:

2018	Number of titles	Nominal value (2)	Principal	Interest	Valuation of hedged items (1)	Total
Deposit certificates						
FBANOBRA (3)	**363,288,946**	**100 MN**	**$ 35,926**	**$ 193**	**$ (732)**	**$ 35,387**
FBANOBRAU	**14,607,165**	**100 UDIS**	**9,095**	**1,476**	**(199)**	**10,372**
FBANOBRAD	**2,177,753**	**100 USD**	**4,280**	**2**	**-**	**4,282**
Domestic senior notes						
CDBANOB (4)	**445,000,000**	**100 MN**	**44,426**	**440**	**(2,434)**	**42,432**
CDBANOBU	**1,080,223**	**100 UDIS**	**673**	**3**	**-**	**676**
	826,154,097		**94,400**	**2,114**	**(3,365)**	**93,149**
Outstanding securities abroad						
JBANOB	**37**	**1,000,000,000 YEN**	**6,625**		**-**	**6,625**
	826,154,134		**$ 101,025**	**$ 2,114**	**$ (3,365)**	**$ 99,774**

2017	Number of titles	Nominal value (2)	Principal	Interest	Valuation of hedged items (1)	Total
Deposit certificates						
FBANOBRA (3)	662,838,946	100 MN	$ 65,834	$ 652	$(1,033)	$ 65,453
FBANOBRAU	11,347,446	100 UDIS	6,734	1,278	126	8,138
FBANOBRAD	6,468,123	100 USD	12,718	5	-	12,723
Domestic senior notes						
CDBANOB (4)	355,000,000	100 MN	35,414	337	(1,954)	33,797
CDBANOBU	1,080,223	100 UDIS	641	3	-	644
	1,036,734,738		121,341	2,275	(2,861)	120,755
Outstanding securities abroad						
JBANOB	37	1,000,000,000 YEN	6,461	1	3,158	9,620
	1,036,734,775		$ 127,982	$ 2,276	$ 297	$ 130,375

(1) Some of the Bank's financial liabilities have associated derivative financial instruments acquired for hedging purposes. The valuation of these instruments is based on the fair value of risks being hedged.

(2) The nominal value of the securities is the price at maturity of the issuance for each security in circulation.

(3) At December 31, 2018 and 2017, the Bank maintains a zero coupon issuance, which does not bear interest. As of December 31, 2018 and 2017, the bank has an issuance at discount (Note 2 numeral r, sixth paragrahp).

(4) At December 31, 2018, the Institution holds a securities issuance placed at a discount, for which it recognized a deferred charge for the difference between the nominal value and the amount of cash received and which, for presentation purposes, is shown in its liabilities of origin. At December 31, 2017, the Institution holds two issues of securities placed at a discount.

During 2018, interest rates paid on deposit certificates ranged between 4.87% and 14.50%, 2.70% and 6.11%, in national currency and UDIS respectively; and 1.30% and 2.52% in foreign currency. In the case of domestic senior notes, interest rates paid on issues denominated in national currency ranged between 5.16% and 8.35% and in UDIS 2.97%. The maturity dates for deposit certificates vary between 7 and 4,533 days in national currency, 37 and 10,766 days in UDIS, and between 2 and 24 days in issues denominated in foreign currency. In the case of domestic senior notes, the maturity period varies between 609 and 2,230 days in national currency and 1,040 days in UDIS.

During 2017, interest rates paid on deposit certificates ranged between 4.87% and 14.50%, 2.70% and 6.11%, in national currency and UDIS respectively; and 0.80% and 1.35% in foreign currency. In the case of domestic senior notes, interest rates paid on issues denominated in national currency ranged between 5.16% and 7.59% and in UDIS 2.97%. The maturity dates for deposit certificates vary between 122 and 4,898 days in national currency, 179 and 7,298 days in UDIS, and between 2 and 82 days in issues denominated in foreign currency. In the case of domestic senior notes, the maturity period varies between 352 and 2,511 days in national currency and 1,405 days in UDIS.

Interest on securities in Japanese Yens is payable semiannually on June 29 and December 29 of each year, at a fixed annual rate of 3% over the 30-year term of the issuance.

At December 31, 2018 and 2017, the Bank has the authorization of the CNBV to carry out the preventive inscription of its issuances, in the securities section, of the National Securities Registry under the generic form.

For the years ended December 31, 2018 and 2017, the amount of issuance expenses and other related expenses recorded in income amounts to $37 and $26, respectively, while the amortized amount of the discount at that date is included (Note 26) as follows:

		2018		2017
Bank promissory notes with interest payable at maturity (PRLV)	**$**	**1,105**	$	1,054
Deposit certificates (CEDES)		**47**		44
Domestic senior notes (CEBURES)		**13**		12
	$	**1,165**	$	1,110

During 2018 and 2017, the Bank did not carry out early redemption of debt securities issued.

As of December 31, 2018 and 2017, the interest paid by the Bank on traditional deposits and the discount for placement of debt amounted to $27,674 and $21,767, respectively (Note 26).

18. Interbank loans and other borrowings

An analysis of interbank loans and other borrowings at December 31, 2018 and 2017, is as follows:

	2018	2017
Due on demand:		
Call Money (a)	**$ 2,363**	$ 865
Short-term loans:		
From Banxico (b)	**10,018**	10,019
From financial institutionsj (c)	**5,249**	-
As a financial agent of the Federal Government (d)	**53**	64
Proprietary (e)	**1,373**	1,459
	16,693	11,542
Long-term loans:		
As a financial agent of the Federal Government (d)	**527**	608
Proprietary (e)	**20,193**	21,169
	20,720	21,777
Valuation of hedged items[1]	**(68)**	(40)
	20,652	21,737
	$ 39,708	$ 34,144

[1] Some of the Bank's financial liabilities have associated derivative financial instruments acquired for hedging purposes against exchange rate and/or interest rate risks. The valuation of these instruments is based on the fair value of risks being hedged.

a) Call Money

An analysis of call money received at December 31, 2018 and 2017 is as follows:

	2018				
	Mexican pesos				
Currency	**Principal**	**Interest**	**Total**	**Rate**	**Term**
Mexican pesos	**$ 90**	**-**	**$ 90**	**8.25%**	**2 days**
Mexican pesos	**2,000**	**-**	**2,000**	**8.25%**	**2 days**
Mexican pesos	**63**	**-**	**63**	**8.20%**	**2 days**
Mexican pesos	**210**	**-**	**210**	**8.20%**	**2 days**
	$ 2,363	**-**	**$ 2,363**		

Currency	2017 Mexican pesos Principal	Interest	Total	Rate	Term
Mexican pesos	$ 100	-	$ 100	7.20%	4 days
Mexican pesos	63	-	63	7.20%	4 days
Mexican pesos	110	-	110	7.20%	4 days
Mexican pesos	90	-	90	7.20%	4 days
Mexican pesos	182	-	182	7.20%	4 days
Mexican pesos	320	-	320	7.20%	4 days
	$ 865	-	$ 865		

b) Loans from Banxico

An analysis of the loans received from Banxico at December 31, 2018 and 2017, is as follows:

Currency	**2018 Mexican pesos Principal**	**Intereses**	**Total**	**Rate**	**Term**
Mexican pesos	**$ 2,000**	**$ 5**	**$ 2,005**	**8.13%**	**14 days**
Mexican pesos	**4,000**	**9**	**4,009**	**8.20%**	**12 days**
Mexican pesos	**1,000**	**2**	**1,002**	**8.35%**	**15 days**
Mexican pesos	**1,000**	**1**	**1,001**	**8.28%**	**14 days**
Mexican pesos	**2,000**	**1**	**2,001**	**8.36%**	**11 days**
	$ 10,000	**$ 18**	**$ 10,018**		

Currency	2017 Mexican pesos Principal	Intereses	Total	Rate	Term
Mexican pesos	$ 2,000	$ 5	$ 2,005	7.35%	14 days
Mexican pesos	3,000	7	3,007	7.33%	20 days
Mexican pesos	2,000	5	2,005	7.33%	16 days
Mexican pesos	3,000	2	3,002	7.32%	8 days
	$ 10,000	$ 19	$ 10,019		

c) Loans from financial institutions

At December 31, 2018, loans from financial institutions are as follows:

- Short-term loan

Currency	**2018 Principal in foreign currency**	**Principal in mexican currency**	**Interest**	**Total**	**Rate**	**Term**
U.S. Dollar	**112**	**$ 2,201**	**$ 1**	**$ 2,202**	**2.52%**	**8 days**
U.S. Dollar	**55**	**1,081**	**-**	**1,081**	**2.52%**	**7 days**
U.S. Dollar	**100**	**1,965**	**1**	**1,966**	**2.55%**	**7 days**
	267	**$ 5,247**	**$ 2**	**$ 5,249**		

At December 31, 2017, there are no loans from Financial Institutions.

d) Loans received as a financial agent of the Federal Government

An analysis of the loans received as a financial agent of the Federal Government at December 31, 2018 and 2017 is as shown:

- Short-term loan

	Loan number	Funding term in years	Loan contract date	Principal balance (thousands of USD)	Outstanding balance interest (thousands of USD)	Total outstanding balance (thousands (of USD)	Outstanding balance in Mexican pesos 2018	2017	Last applicable rate
Natixis Bank									
(i) PROTOCOLS		31	Jan 26, 81	**$ 2,657**	**$ 60**	**$ 2,717**	**$ 53**	$ 64	**(*)1.75%**

(*) Average rate.
(i) Loans obtained in Euros translated into U.S. Dollars for financial reporting purposes.

- Long-term loan

	Loan number	Funding term in years	Loan contract Date	Principal balance (thousands of USD)	Outstanding balance interest (thousands of USD)	Total outstanding balance (thousands (of USD)	Outstanding balance in Mexican pesos 2018	2017	Last applicable rate
(i) PROTOCOLS		31	Jan 26, 81	**$ 26,813**	**-**	**$ 26,813**	**$ 527**	$ 608	**(*)1.75%**

(*) Average rate.
(i) Loans obtained in Euros translated into U.S. Dollars for financial reporting purposes.

At December 31, 2018 and 2017, the Bank has no pending disbursements as a financial agent of the Federal Government.

e) Proprietary loans

An analysis of the Bank's proprietary loans at December 31, 2018 and 2017, is as follows:

- Short-term loans

	Loan number	Funding term in years	Loan contract date	Principal balance (thousands of USD)	Outstanding balance interest (thousands of USD)	Total outstanding balance (thousands (of USD)	Outstanding balance in Mexican pesos 2018	2017	Last applicable rate
(i)	**1383-BID**	25	March 10, 02	**2,994**	**526**	**3,520**	**$ 69**	$ 70	**(*)9.56%**
(i)	**2053-BID**	25	Sep 09,09	**1,675**	**473**	**2,148**	**42**	176	**(*)8.55%**
(i)	**1744-BID**	25	March 06,07	**6,317**	**1,233**	**7,550**	**149**	147	**(*)8.29%**
(i)	**7230-BIRF**	18	March 09,05	**4,131**	**521**	**4,652**	**92**	93	**(*)8.52%**
(i)	**7250-BIRF**	15	Nov 21,05	**523**	**18**	**541**	**11**	21	**(*)8.05%**
(ii)	**1214-OC-ME-BID**	25	Oct 25, 99	**1,301**	**63**	**1,364**	**27**	27	**4.29%**
(ii)	**1383-OC-ME-BID**	25	March 10,02	**10,253**	**693**	**10,946**	**215**	212	**(*)3.83%**
(ii)	**1744-OC-ME-BID**	25	March 06,07	**393**	**58**	**451**	**9**	9	**3.42%**
(ii)	**2053-BID**	25	Sep 09,09	**14,692**	**2,501**	**17,193**	**338**	316	**3.66%**
(ii)	**2550-BID**	25	Nov 29, 11	**14,593**	**416**	**15,009**	**295**	293	**3.42%**
(ii)	**3313-BID**	25	Dec 10,14	**2,381**	**1,756**	**4,137**	**81**	59	**3.36%**
(ii)	**96291-BIRF (iii)**	20	July 21, 10	**-**	**22**	**22**	**-**	-	**0.75%**
(ii)	**7883-BIRF**	13	July 21,10	**2,122**	**84**	**2,206**	**43**	36	**3.70%**
(ii)	**8386-BIRF**	13	Jun 13,14	**89**	**15**	**104**	**2**	-	**3.55%**
				61,464	**8,379**	**69,843**	**$ 1,373**	$ 1,459	

(*) Average rate.
(i) Denominated in Mexican pesos.
(ii) Denominated in U.S. Dollars.
(iii) Outstanding balance less than $1.

- Long-therm loans

	Loan number	Funding term in years	Loan contract date	Principal balance (thousands of USD)	Outstanding balance interest (thousands of USD)	Outstanding balance in Mexican pesos 2018	2017	Last applicable rate
(i)	**1383-BID**	25	Mar 10,02	**22,458**	**22,458**	**$ 441**	$ 500	**(*)9.56%**
(i)	**2053-BID**	25	Sep 09,09	**24,703**	**24,703**	**485**	518	**(*)8.55%**
(i)	**1744-BID**	25	Mar 06,07	**79,031**	**79,031**	**1,553**	1,677	**(*)8.29%**
(i)	**7230-BIRF**	18	Mar 09,05	**10,235**	**10,235**	**201**	282	**(*)8.52%**
(i)	**7250-BIRF**	15	Nov 21,05	**-**	**-**	**-**	10	**(*)8.05%**
(ii)	**1214-OC-ME-BID**	25	Oct 25,99	**6,506**	**6,506**	**128**	154	**4.29%**
(ii)	**1383-OC-ME-BID**	25	Mar 10,02	**77,599**	**77,599**	**1,525**	1,739	**(*)3.83%**
(ii)	**1744-OC-ME-BID**	25	Mar 06,07	**4,912**	**4,912**	**97**	104	**3.42%**
(ii)	**2053-BID**	25	Sep 09,09	**220,374**	**220,374**	**4,330**	4,498	**3.66%**
(ii)	**2550-BID**	25	Nov 29,11	**246,440**	**246,440**	**4,843**	5,133	**3.42%**
(ii)	**3313-BID**	25	Dec 10,14	**218,660**	**218,660**	**4,297**	4,346	**3.36%**
(ii)	**96291-BIRF**	20	Jul 21,10	**62,016**	**62,016**	**1,219**	1,219	**0.75%**
(ii)	**7883-BIRF**	13	Jul 21,10	**45,863**	**45,863**	**901**	944	**3.70%**
(ii)	**8386-BIRF**	13	Jun 13,10	**8,808**	**8,808**	**173**	45	**3.55%**
				1,027,605	**1,027,605**	**$ 20,193**	$ 21,169	

(*) Average rate.
(i) Mexican peso borrowings.
(ii) U.S. Dollar borrowings.

Maturity of long-term loans:

Repayments of long-term loans over the next six years in Mexican pesos are as follows:

Year	Installment
2020	**$ 1,251**
2021	**1,415**
2022	**1,368**
2023	**1,339**
2024	**1,351**
2025	**1,337**
More than 6 years	**12,659**
	$ 20,720

At December 31, 2018 and 2017, the Bank has contracted lines of credit with total available drawdown balances of $7,508 and $9,124, respectively.

At December 31, 2018 and 2017, there are no guarantees for the borrowings received.

As of December 31, 2018 and 2017, interest paid on interbank loans amounts to $1,456 and $1,364, respectively (Note 26).

19. Income tax (IT) and employee statutory profit sharing (ESPS)-

a) Income tax

Income tax for the year is determined by applying the corporate rate of 30% to the result of reducing from the taxable income the allowable deductions and employees' statutory profit sharing and, where appropriate, tax losses carry forward pending to be applied.

At December 31, 2018 and 2017, the income tax in the Statement of Income is as follows:

	2018	2017
Income tax payable	**$ 788**	$ 1,003
Deferred Income Tax	**(5)**	130
Income tax	**$ 783**	$ 1,133

For the years ended at December 31, 2018 and 2017, the Income Tax payable was determined as follows:

	2018	2017
Taxable income	**$ 72,449**	$ 59,106
Authorized deductions	**69,457**	55,365
Income before ESPS	**2,992**	3,741
ESPS payable	**366**	399
Income Tax	**2,626**	3,342
Taxable base	**2,626**	3,342
Taxable rate	**30%**	30%
Total income tax recognized in income statement	**$ 788**	$ 1,003

The Bank has not filed its annual tax return for 2018 with the tax authorities. The deadline for doing so is March 31, 2019. Consequently, so the financial information herein disclosed may be modified. However, it is estimated that its effects do not change the result significantly.

- Deferred Income Tax

The assets and liabilities of deferred tax relating to certain income tax on tax and accounting values at year-end of 2018 and 2017, are as follows:

	2018	2017
Deferred tax assets:		
Unearned commissions collected	**$ 906**	$ 923
Allowance for loan losses	**3,220**	2,416
ESPS of the year and deferred	**151**	110
Total deferred assets gross	**4,277**	3,449
Less valuation allowance (Allowance for loan losses)	**3,220**	2,416
Deferred tax assets, net	**1,057**	1,033
Deferred tax liabilities:		
Release of allowance for loan losses	**645**	788
Derivative financial instruments	**877**	783
Fixed assets and other deferred charges	**17**	66
Total deferred liabilities	**1,539**	1,637
Deferred income tax liability, net[1]	**$ (482)**	$ (604)

[1] In 2018, the reduction of the deferred Income Tax liability was recognized under Retained Earnings recorded at December 31, 2017 for $117, which is comprised of a deferred asset for deferred employee profit sharing of $66 and a decrease in deferred liabilities generated by the assets held by the Institution when excluding land for $51. The financial statements were not restated, which was impractical since there was no way to determine the correction for all the previous periods affected.

- Reconciliation of statutory and effective Income Tax for 2018 and 2017

A reconciliation between the current tax rate in the years 2018 and 2017 as established in the Mexican Income Tax Law (ISR law), and the effective tax rate recognized for financial reporting purposes at December 31, 2018 and 2017 is as follows:

	2018		
	Amount	**Tax effect**	**Effective tax rate**
Income before income tax	**$ 2,882**	**$ 865**	**30.00%**
Plus:			
Non-deductible expenses	**20,649**	**6,195**	**214.94%**
Taxable income	**3,924**	**1,177**	**40.85%**
Less:			
Deductible expenses	**4,913**	**1,474**	**51.14%**
Non-taxable income	**19,550**	**5,865**	**203.50%**
Income before ESPS deduction	**2,992**	**898**	**31.15%**
Less:			
ESPS paid	**366**	**110**	**3.81%**
Taxable income of the year	**2,626**	**788**	**27.34%**
Total income tax payable	**-**	**788**	**27.34%**
Deferred tax allocation			
Temporary items			
Release of reserves	**$ 479**	**$ 144**	**5.00%**
Financial instruments and derivatives	**(314)**	**(94)**	**(3.26)%**
Income and unamortized expenses	**(52)**	**(16)**	**(0.56)%**
Fixed assets, allowances and other deferred charges	**(97)**	**(29)**	**(1.01)%**
Deferred tax liability	**$ 16**	**5**	**0.17%**
Income Tax	**-**	**$ 783**	**27.17%**

	2017		
	Amount	Tax effect	Effective tax rate
Income before income tax	$ 5,244	$ 1,573	30.00%
Plus:			
Non-deductible expenses	18,536	5,561	106.04%
Taxable income	4,077	1,223	23.32%
Less:			
Deductible expenses	5,531	1,659	31.64%
Non-taxable income	18,585	5,575	106.31%
Income before ESPS deduction	3,741	1,123	21.41%
Less:			
ESPS paid	399	120	2.29%
Taxable income of the year	3,342	1,003	19.12%
Total income tax payable	3,342	1,003	19.12%
Deferred tax allocation			
Temporary items			
Release of reserves	273	82	1.56%
Financial instruments and derivatives	176	53	1.01%
Income and unamortized expenses	11	3	0.06%
Fixed assets, allowances and other deferred charges	(25)	(8)	(0.15)%
Deferred tax liability	$ 435	130	2.48%
Income Tax	-	$ 1,133	21.60%

At December 31, 2018 and 2017, the permanent items for which the legal tax rate differs from the effective rate are integrated as follows:

	2018		2017	
	Tax	**%**	Tax	%
Income before taxes	**$ 2,882**		$ 5,244	
Expected tax	**865**	**30.00**	1,573	30.00
Increase (reduction) resulting from:				
Annual adjustment for inflation	**(776)**	**(26.93)**	(895)	(17.07)
Release of reserves	**293**	**10.17**	80	1.52
Allowance for loan losses	**137**	**04.76**	-	-
Non-deductible expenses	**41**	**01.43**	73	1.39
Market valuation	**171**	**05.94**	5	0.09
Net cost of the period	**124**	**04.31**	151	2.88
Initial commissions	**(17)**	**(00.59)**	94	1.79
Derivative financial instruments	**(70)**	**(02.43)**	(71)	(1.35)
Non-cumulative income	**(5)**	**(00.18)**	(31)	(0.59)
Tax expense from business trust	**-**	**-**	80	1.52
Other fiscal items, net	**20**	**00.69**	74	1.42
Expenses for taxes to the utility	**$ 783**	**27.17**	$ 1,133	21.60

- Tax losses

As of December 31, 2018 and 2017, there were no tax losses from previous years pending of amortization against the fiscal profits of those years.

b) Deferred ESPS

At December 31, 2018, the Institution recorded deferred employee statutory profit sharing revenues of $10, and at December 31, 2017, it did not recognize any deferred employee profit sharing effect in income statement; however, in 2018, the impact caused by deferred employee profit sharing at December 31, 2017, was recorded in retained earnings in an amount equal to $221.

For the years ended December 31, 2018 and 2017, the effects of deferred employee profit sharing from temporary differences originated by the assets and liabilities are itemized as follows:

	2018	2017
Deferred assets:		
Initial commissions	**$ 302**	$ 308
Allowance for loan losses	**1,073**	805
Total gross deferred assets	**1,375**	1,113
Less valuation allowance (Allowance for loan losses)	**(1,073)**	(805)
Deferred assets, net	**302**	308
Deferred liabilities:		
Release of reserves	**215**	263
Derivative financial instruments	**292**	261
Fixed assets, provisions and other deferred charges	**6**	5
Total deferred liabilities	**513**	529
Net liabilities for deferred ESPS	**$ (211)**	$ (221)

Deferred employee statutory profit sharing for 2017 is shown for comparative purposes; however, this amount was affected in Retained earnings in 2018.

20. Accrued liabilities and other accounts payable

At December 31, 2018 and 2017, accrued liabilities and other accounts payable are shown below:

	2018	2017
Tax witheld and remitted	**$ 5,025**	$ 4,838
Assets and liabilities for financial leasing (1)	**66**	747
Compensation purchases and sales of currency value date	**-**	590
Applications to be made	**91**	330
Provisions for other obligations and other creditors	**121**	95
Social security contributions	**13**	13
	$ 5,316	$ 6,613

(1) At December 31, 2018 and 2017, assets and liabilities for financial lease are as follows:

	2018	2017
Assets to be ceded in financial lease contracts	**$ 432**	$ 3,919
Liabilities from the acquisition of assets under financial lease transactions	**366**	4,666
	$ 66	$ 747

The commitments formalized for the acquisition of the assets are covered by derivatives (forwards) for exchange rate risk.

21. Employee benefits

- **Defined benefit plan**

A reconciliation of the defined benefit obligation and assets plan at December 31, 2018 and 2017, to the liability recognized in the balance sheets at such dates, is as shown:

	2018				
Provisions for:	**Pension plan**	**Seniority premium**	**Other retirement benefits**	**Termination benefits**	**Total**
Defined benefit obligation	**$ (10,842)**	**$ (17)**	**$ (9,306)**	**$ (19)**	**$ (20,184)**
Fair value of assets plan	**12,052**	**16**	**8,486**	**-**	**20,554**
Plan asset shortfall	**1,210**	**(1)**	**(820)**	**(19)**	**370**
Unrecognized actuarial losses	**2,728**	**3**	**2,885**	**2**	**5,618**
Net projected asset (liability) shown in balance sheet (Note 16)	**$ 3,938**	**$ 2**	**$ 2,065**	**$ (17)**	**$ 5,988**

	2017				
Provisions for:	Pension plan	Seniority premium	Other retirement benefits	Termination benefits	Total
Defined benefit obligation	$ (11,079)	$ (21)	$ (9,235)	$ (19)	$ (20,354)
Fair value of assets plan	12,277	19	8,031	-	20,327
Plan asset shortfall	1,198	(2)	(1,204)	(19)	(27)
Unrecognized actuarial losses	2,956	4	3,125	3	6,088
Net projected asset (liability) shown in balance sheet (Note 16)	$ 4,154	$ 2	$ 1,921	$ (16)	$ 6,061

The net periodic cost ended December 31, 2018 and 2017, is comprised as shown in the next page.

	2018				
	Pension plan	**Seniority premium**	**Other retirement benefits**	**Termination benefits**	**Total**
Breakdown of net periodic cost of 2018:					
Labor cost	**$ 36**	**1**	**$ 68**	**$ 1**	**$ 106**
Financial cost	**27**	**$ 1**	**696**	**1**	**1,525**
Expected return on assets plan	**(919)**	**(1)**	**(603)**	**-**	**(1,523)**
Net actuarial loss	**172**	**2**	**288**	**2**	**464**
Net periodic benefit cost	**$ 116**	**$ 3**	**$ 449**	**$ 4**	**$ 572**

	2017				
	Pension plan	Seniority premium	Other retirement benefits	Termination benefits	Total
Breakdown of net periodic cost of 2017:					
Labor cost	$ 60	-	$ 64	$ 1	$ 125
Financial cost	857	$ 1	576	1	1,435
Expected return on assets plan	(847)	(1)	(555)	-	(1,403)
Net actuarial loss	233	1	241	2	477
Net periodic benefit cost	$ 303	$ 1	$ 326	$ 4	$ 634

A summary of vested and unvested labor obligations at December 31, 2018 and 2017, is as follows:

	2018				
	Pension plan	**Seniority premium**	**Other retirement benefits**	**Termination benefits**	**Total**
Provisions for:					
Vested benefit obligation	**$ 9,640**	**$ 16**	**$ 8,078**	**-**	**$ 17,734**
Unvested benefit obligation	**1,173**	**2**	**1,256**	**$ 19**	**2,450**
Defined benefit obligation	**$ 10,813**	**$ 18**	**$ 9,334**	**$ 19**	**$ 20,184**

	2017				
	Pension plan	Seniority premium	Other retirement benefits	Termination benefits	Total
Provisions for:					
Vested benefit obligation	$ 10,418	$ 20	$ 8,505	-	$ 18,943
Unvested benefit obligation	661	1	730	$ 19	1,411
Defined benefit obligation	$ 11,079	$ 21	$ 9,235	$ 19	$ 20,354

Changes in the present value of the defined benefit obligation are as follows:

	2018				
	Pension plan	**Seniority premium**	**Other retirement benefits**	**Termination benefits**	**Total**
Defined benefit obligation:					
Present value of defined benefit obligation at January 1, 2018	**$ 11,079**	**$ 21**	**$ 9,235**	**$ 19**	**$ 20,354**
Labor cost	**36**	**1**	**68**	**1**	**106**
Financial cost	**826**	**1**	**696**	**1**	**1,524**
Actuarial loss (gain) on projected benefit obligation	**(389)**	**1**	**(247)**	**(2)**	**(637)**
Benefits paid	**(739)**	**(7)**	**(418)**	**-**	**(1,164)**
Payments	**29**	**-**	**(28)**	**-**	**1**
Present value of defined benefit obligation at December 31, 2018	**$ 10,842**	**$ 17**	**$ 9,306**	**$ 19**	**$ 20,184**

	2017				
	Pension plan	Seniority premium	Other retirement benefits	Termination benefits	Total
Defined benefit obligation:					
Present value of defined benefit obligation at January 1, 2017	$ 11,939	$ 20	$ 7,931	$ 19	$ 19,909
Labor cost	60	-	63	1	124
Financial cost	857	1	576	1	1,435
Actuarial loss (gain) on projected benefit obligation	(1,119)	3	1,101	(2)	(17)
Payments	(658)	(3)	(436)	-	(1,097)
Present value of defined benefit obligation at December 31, 2017	$ 11,079	$ 21	$ 9,235	$ 19	$ 20,354

Assets plan are recognized at fair value and are invested as follows:

	2018				
	Pension plan	**Seniority premium**	**Other retirement benefit**	**Termination benefits**	**Total**
Changes in the fair value of plan assets					
Fair value of assets plan at January 1, 2018	**$ 12,277**	**$ 19**	**$ 8,031**	**$ -**	**$ 20,327**
Expected return on assets plan	**904**	**2**	**504**	**-**	**1,410**
Bank contributions	**10**	**1**	**369**	**-**	**380**
Trasfer to assets plan for increase maximum obligation	**(400)**	**-**	**-**	**-**	**(400)**
Benefits paid	**(739)**	**(6)**	**(418)**	**-**	**(1,163)**
Fair value of assets plan at December 31, 2018	**$ 12,052**	**$ 16**	**$ 8,486**	**$ -**	**$ 20,554**

	2017				
	Pension plan	Seniority premium	Other retirement benefit	Termination benefits	Total
Changes in the fair value of plan assets					
Fair value of assets plan at January 1, 2017	$ 11,809	$ 20	$ 7,641	-	$ 19,470
Expected return on assets plan	1,002	1	677	-	1,680
Bank contributions	124	1	149	-	274
Benefits paid	(658)	(3)	(436)	-	(1,097)
Fair value of assets plan at December 31, 2017	$ 12,277	$ 19	$ 8,031	-	$ 20,327

The expected rate of return of the plan assets (AP, for its acronym in Spanish) is determined based on the flow of expected payments reached with in the value of the term of instruments without risk for 3, 5, 10, 20 and 30 year terms, obtaining a curve of rates on the horizon of expected payments applying the “Nelson-Siegel” parametric model. The end result is an equivalent rate.

At December 31, 2018 and 2017, the ordinary contributions under this plan amount to $380 and $275 respectively. As of December 31, 2017, a extraordinary contributions were made amounted to $5.

At December 31, 2018, whether directly or under security repurchase agreements, 40% (44% in December 2017) of the total plan assets are invested in government debt instruments and savings protection bonds; 20% in 2018 (25% in December 2017) are invested in debt instruments issued by other development banks and other public sector entities; and 40% in 2018 (31% in December 2017) are invested in debt instruments issued by states and municipalities, private sector companies with high credit ratings. At December 31, 2018, the terms of these investments range from 2 days to 29 years.

At December 31, 2018 and 2017, the return of these investments amounted to $1,456 and $1,301, respectively.

Annual information on the Bank's defined benefit obligations for 2018 and the four prior years is as follows:

	2018	2017	2016	2015	2014
Pension plan at December 31:					
Defined benefit obligation	**$ (10,842)**	$ (11,079)	$ (11,939)	$ (11,860)	$ (11,616)
Fair value of assets plan	**12,052**	12,277	11,809	11,702	9,845
Funded status	**$ 1,210**	$ 1,198	$ (130)	$ (158)	$ (1,771)
Seniority premium at December 31:					
Defined benefit obligation	**$ (17)**	$ (21)	$ (20)	$ (20)	$ (20)
Fair value of assets plan	**16**	19	20	19	20
Funded status	**$ (1)**	$ (2)	$ -	$ (1)	$ -
Other retirement benefits:					
Defined benefit obligation	**$ (9,306)**	$ (9,235)	$ (7,931)	$ (7,810)	$ (7,286)
Fair value of assets plan	**8,486**	8,031	7,641	7,368	5,750
Funded status	**$ (820)**	$ (1,204)	$ (290)	$ (442)	$ 1,536
Termination benefits:					
Defined benefit obligation	**$ (19)**	$ (19)	$ (19)	$ (9)	$ (3)
Funded status	**$ (19)**	$ (19)	$ (19)	$ (9)	$ (3)

The term to carryforward outstanding items, based on the average remaining labor life of employees, is as follows:

	2018	2017
Seniority premium	**4**	4
Pension plan	**21**	21
Other retirement benefits	**21**	21

The rates used in the actuarial study at December 31, 2018 and 2017, were as follows:

	2018	2017
Long-term inflation	**3.60%**	3.50%
Discount rate	**8.90%**	7.70%
Expected salary increase rate	**4.12%**	5.57%
Expected return on plan assets	**8.90%**	7.70%
Average long-term inflation rate	**3.60%**	3.50%

At December 31, 2018, the accumulated obligations for retirement benefits derived from medical assistance costs and the effect of increasing the rate used to determine the cost of other benefits by half a point while keeping all the other factors the same amounted an effect of $961 ($683 in 2017). The effect of decreasing the same factors by half percentage point amounted to $264 ($615 in 2017).

- **Defined contribution pension plan**

The Bank has an irrevocable trust fund to cover its obligations under the defined contribution pension plan. The Bank's contributions to the new plan are made every two weeks and are equal to 10% of each employee's salary, as so defined in the GWC, and 50% of any voluntary contributions made by the employees, capped at 5% of the salary.

A reconciliation between the defined benefit obligation and the fair value of plan assets with liabilities recognized in the balance sheets at December 31, 2018 and 2017, is comprised as shown in the following page.

	2018				
	Other retirement benefits	**Termination benefits**	**Seniority premium**	**Death benefits**	**Total**
Provisions for:					
Defined benefit obligation	**$ (64)**	**$ (92)**	**$ (8)**	**$ (27)**	**$ (191)**
Fair value of plan assets	**292**	**-**	**5**	**22**	**319**
Plan asset shortfall	**228**	**(92)**	**(3)**	**(5)**	**128**
Actuarial gain (loss)	**(3)**	**5**	**-**	**-**	**2**
Net projected asset (liability) shown in balance sheet (Note 16)	**$ 225**	**$ (87)**	**$ (3)**	**$ (5)**	**$ 130**

	2017				
	Other retirement benefits	Termination benefits	Seniority premium	Death benefits	Total
Provisions for:					
Defined benefit obligation	$ (63)	$ (73)	$ (5)	$ (15)	$(156)
Fair value of plan assets	264	-	3	17	284
Plan asset shortfall	201	(73)	(2)	2	128
Actuarial gain (loss)	(2)	5	-	-	3
Net projected asset (liability) shown in balance sheet (Note 16)	$ 199	$ (68)	$ (2)	$ 2	$ 131

The net periodic cost for the period ended December 31, 2018 and 2017, is comprised as follows:

	2018				
	Death benefits	**Seniority premium**	**Other retirement benefits**	**Termination benefits**	**Total**
Breakdown of net periodic cost for 2018:					
Labor cost of current service	**$ 6**	**$ 1**	**$ 13**	**$ 19**	**$ 39**
Labor cost of past service	**-**	**-**	**-**	**-**	**-**
Financial cost	**1**		**5**	**5**	**11**
Amortization on transition liability (asset)	**-**	**-**	**-**	**-**	**-**
Expected return on plan assets	**(1)**	**-**	**(21)**	**-**	**(22)**
Net actuarial (gain) loss	**(1)**	**-**	**-**	**2**	**1**
Net periodic benefit cost	**$ 5**	**$ 1**	**$ (3)**	**$ 26**	**$ 29**

	2017				
	Death benefits	Seniority premium	Other retirement benefits	Termination benefits	Total
Breakdown of net periodic cost for 2017:					
Labor cost of current service	$ 6	$ 1	$ 29	$ 5	$ 41
Labor cost of past service	-	-	-	-	-
Financial cost	1		7	1	9
Amortization on transition liability (asset)	-	-	-	-	-
Expected return on plan assets	(1)	-	(13)	-	(14)
Net actuarial (gain) loss	-	-	-	2	2
Net periodic benefit cost	$ 6	$ 1	$ 23	$ 8	$ 38

The expected rate of return from the plan assets is determined based on the cash flow of expected payments reached with the value of the duration of instruments without risk for 3, 5, 10, 20 and 30 year terms, obtaining a curve of rates on the horizon of expected payments applying the “Nelson-Siegel” parametric model. The end result is an equivalent rate.

For the years ended December 31, 2018 and 2017, the contributions made under this plan amount to $16 and $78, respectively. At December 31, 2017 extraordinary contributions were made for $3.

At December 31, 2018, whether directly or under security repurchase agreements, 44% in 2018 (47% in 2017) of the total plan assets are invested in government debt instruments and savings protection bonds; 16% in 2018 (12% in 2017) are invested in debt instruments issued by the Bank and other public sector entities; and 40% in 2018 (41% in 2017) are invested in debt instruments issued by private sector companies with high credit ratings. At year-end of December 31, 2018, the terms of these investments range from 2 days to 29 years, while for 2017 the term fluctuated between 4 days and 29 years.

The real return on these investments at December 31, 2018 and 2017, amounted to $66 and $38, respectively.

At December 31, 2018, regarding the accumulated obligations of retirement benefits derived from health care costs, the effect of increasing half a point the rate used in the cost of other benefits considering the other unchanged assumptions, would amount $10 ($12 in 2017), the effect of decreasing by half percentage point on the same assumptions, would amount to $11 ($10 in 2017).

22. Commitments and contingent liabilities

a) Operating leasing

The Bank has entered into operating lease agreements for which the Ministry of Public Administration, through the Government Property Management and Appraisal Agency (INDAABIN, for its acronym in Spanish), establishes the contractual criteria on an annual basis.

Rental expense for the years ended December 31, 2018 and 2017, amounted to $16 and $12, respectively.

b) Lawsuits and appeals

At December 31, 2018 and 2017, the bank has to a number labor, civil and commercial suits, of which, in 2018, it is estimated that six cases have a high probability of cash disbursements for an amount equal to $12, while for 2017, seven cases were calculated for an amount of $10.

c) Contingent assets and liabilities

At December 31, 2018 and 2017, the contingent assets and liabilities are as follows:

	2018	2017
Credit guarantees	**$ 11,866**	$ 29,583
Outstanding credit lines	**4,984**	2,201
Debtors by claims	**498**	539
	$ 17,348	$ 32,323

d) Credit commitments

The lines of credit not disposed by customers at December 31, 2018 and 2017, amounted to $45,221 and $53,872, respectively.

e) Tax authorities review

In conformity with current tax legislation, the tax authorities are authorized to review up to five fiscal years prior to the last return filed, which could give rise to tax differences derived from the different interpretation criteria of the tax provisions applied by the Bank and the tax authorities.

23. Shareholders' equity

a) Capital stock

The Bank's paid-in capital stock at December 31, 2018 and 2017, is represented by 9,357,545,917 and 8,785’153,504 series "A" patrimonial contribution certificates (CAP´s, for its acronym in Spanish) and 4,820,553,957 and 4,525’685,138 series "B" patrimonial contribution certificates with a par value of one Mexican peso each. Paid-in capital at December 31, 2018 and 2017, is $17,604 and $16,736, respectively.

	2018		2017	
	Historical	**Restated for inflation**	Historical	Restated for inflation
Ordinary fixed capital stock:				
CAP´s Series “A” shareholders' equity contribution certificates	**$ 13,200**	**$ 15,461**	$ 13,200	$ 15,461
CAP´s - Series “B” shareholders' equity contribution certificates	**6,800**	**7,965**	6,800	7,965
	20,000	**23,426**	20,000	23,426
Fixed capital stock not paid in:				
CAP´s Series “A” shareholders' equity contribution certificates	**3,843**	**3,843**	4,415	4,415
CAP´s - Series “B” shareholders' equity contribution certificates	**1,979**	**1,979**	2,274	2,275
	5,822	**5,822**	6,689	6,690
Paid-in capital stock	**$ 14,178**	**$ 17,604**	$ 13,311	$ 16,736

***** Sums and some figures may vary due to rounding.

b) Changes in capital

On November 28, 2018, the Bank received from the Federal Government, through the SHCP, the amount of $7,585 as a contribution for future capital increases, for its subsequent formalization and increase of paid-in capital.

Of the date of issuance of the financial statements (March 13, 2019), 2,189,483,511 equity contribution certificates (1,445,059,117 CAP´s series “A” and 744,424,394 CAP´s series “B”) are in the process of being subscribed.

On December 6, 2018, the capitalization contribution for future capital increases for the year 2017 was capitalized. An analysis is as follows:

Year	Number of-CAP´s	Nominal value	Capital stock	Patrimonial contribution certificates subscription value	Premium for certificates subscription value
"A" serie					
2017,	572,392,413	1	572	2.54564448	1,456
"B" serie					
2017	294,868,819	1	295	2.54564448	751
TOTAL	867,261,232		867		2,207

***** Sums and some figures may vary due to rounding.

At December 27, 2017, through the SHCP, the Bank received $3,075 from the Federal Government as a contribution for future capital increases for its subsequent formalization and increase of paid paid-in capital. At the date of the audit report on these financial statements (March 13, 2019), there are 867,261,232 equity contribution certificates (572,392,413 CAP´s series “A” and 294,868,819 CAP´s series ”B”) in the process of being subscribed.

At December 27, 2017 the contributions for future capital increases corresponding to the 2016 and 2014 financial years were capitalized as follows.

Year	Number of-CAP´s	Nominal value	Capital stock	Patrimonial contribution certificates subscription value	Premium for certificates subscription value
"A" serie					
2014	459,817,729	1	$ 460	1.870702708	$ 860
2016	184,479,666	1	184	2.219867053	410
	644,297,395		644		1,270
"B" serie					
2014	236,875,800	1	237	1.870702708	443
2016	95,034,980	1	95	2.219867053	211
	331,910,780		332		654
TOTAL	976,208,175		$ 976		$ 1,924

***** Sums and some figures from financial statemnts may vary due to rounding.

c) Restrictions on shareholders' equity

- **Subscribed shareholders' equity contribution certificates (CAP´s)**

CAP´s series "A" shareholders' patrimonial contribution certificates may only be subscribed by the Federal Government through the issuance of a non-transferable zero coupon single certificate, and under no circumstance may the nature of the certificate or the rights it confers to the Federal Government be changed. CAP´s Series "B" shareholders' equity contribution certificates may only be subscribed by the Federal Government and state and municipal governments and by Mexican individuals and corporations, in strict compliance with the provisions of article 33 of the Mexican Credit Institutions Act.

- **Legal reserve**

In conformity with Banobras Organic Law and its Regulations and the Mexican Credit Institutions Act, the Bank is required to appropriate at least 10% of the net income of each year to create and increase the legal reserve. This practice must be continued until the legal reserve is equal to paid-in capital stock. Such reserve may not be distributed to shareholders during the life of the Bank, but may be capitalized. At December 31, 2018 and 2017, the legal reserve is $3,037 and $2,626, respectively, and is presented under the Capital reserves caption in shareholders' equity.

- **Other reserves**

As of December 31, 2018 and 2017, the Bank has constituted another capital reserve amounting to $1,970, in both years.

d) Restrictions on earnings

The Mexican Income Tax Law establishes that dividends declared from income on which corporate income tax has been paid shall not be subject to further taxation; therefore, taxable income must be controlled in a so-called Net taxed profits account (NTPA). The payment of dividends in excess of the NTPA account balance will be subject to corporate income tax, payable by the Bank, at the enacted income tax rate at that time.

In accordance with the Income Tax Law, the Bank must have a Capital Contribution Account (CCA), which will be added to the capital contributions and net share premiums paid by the shareholders, and will decrease with capital reductions made. The balance of this account must be restated for inflation at each year-end closing or when capital contributions are made or when capital is reduced.

According to the Mexican Income Tax Law, the amount of a capital reduction will not be subject to income tax when it does not exceed the CCA balance. This difference will be considered as a distributed profit and the related income tax is computed at the prevailing rate on the date of the reduction, as set forth in the current Mexican Income Tax Law.

At December 31, 2018 and 2017, the Bank has the following tax balances:

	2018	2017
CCA	**$ 52,953**	$ 43,227
NTPA	**14,536**	10,633

e) Capitalization index (unaudited information)

At December 31, 2018, the Bank estimates the ratio of net capital corresponding only to credit risk assets was at 26.00%, while including overall risk assets was of 18.51%. At December 31, 2017, these ratios were 25.23% and 16.99%, respectively.

An analysis of the capitalization index at December 31, 2018 and 2017, is as follows:

	2018		2017	
	Credit ratio	**Overall ratio**	Credit ratio	Overall ratio
Millions of Mexican pesos and %				
Core capital	**25.40**	**18.09**	24.63	16.59
Supplementary capital	**0.60**	**0.43**	0.60	0.40
Net capital	**26.00**	**18.51**	25.23	16.99
Venture assets	**$ 215,911**	**$ 303,268**	$ 194,517	$ 288,734

* Numbers may not add up due to rounding.

f) Analysis of net capital (unaudited information)

At December 31, 2018 and 2017, the Bank estimates its net capital increased to $55,604 and $49,068, respectively. An analysis of net regulatory basic capital and regulatory supplementary capital is as follows:

	2018	2017
Shareholders' equity	**$ 55,046**	$ 48,055
Less:		
Equity investments in financial entities	**2**	5
Equity investments in non-financial entities	**91**	43
Intangibles and deferred costs or expenses		
Gain (loss) from valuation of derivatives cash flow hedges	**65**	67
Other assets	**36**	36
Core capital	**54,851**	47,905
Allowance for loan losses	**1,290**	1,163
Supplementary capital	**1,290**	1,163
Net capital	**$ 56,141**	$ 49,068

* Numbers may not add up due to rounding.

g) Distressed assets (unaudited information)

At December 31, 2018, the Bank estimates that its total distressed assets aggregate $303,268 of which 71% represent credit risk assets. An analysis of the changes in market and credit risk from 2018 to 2017 is as shown in the following page.

Market risk assets at December 31, 2018

Item	**Amount of equivalent positions**	**Capital requirement**
Mexican peso transactions at nominal rates	$ 40,531	$ 3,242
Mexican peso debt securities transactions with premiums and reviewable rates	14,495	1,160
Mexican peso denominated transactions at real rates or denominated in UDIs or UMAS	6,914	553
Foreign currency transactions at nominal rates	1,950	156
UDIS positions or with performance referred to the INPC	14	1
Foreign currency positions or with returns indexed to the exchange rate	1,962	157
Positions in shares or with performance indexed to the price of an action or shares group	135	11
	$ 66,000	$ 5,280

Market risk assets at December 31, 2017

Item	Amount of equivalent positions	Capital requirement
Mexican peso transactions at nominal rates	$ 49,969	$ 3,998
Mexican peso debt securities transactions with premiums and reviewable rates	12,536	1,003
Mexican peso denominated transactions at real rates or denominated in UDIs	6,268	501
Foreign currency transactions at nominal rates	5,716	457
UDIS positions or with performance referred to the INPC	43	3
Foreign currency positions or with returns indexed to the exchange rate	1,638	131
Positions in shares or with performance indexed to the price of an action or shares group	135	11
	$ 76,305	$ 6,104

* Numbers may not add up due to rounding.

Credit risk assets under Standard Method at December 31, 2018

Item	**Weighted assets by risk**	**Capital requirement**
Group II (weighted at 20%)	$ 13	$ 1
Group III (weighted at 20%)	9,345	748
Group III (weighted at 50%)	6	1
Group III (weighted at 100%)	8	1
Group IV (weighted at 20%)	3,113	249
Group V (weighted at 20%)	25,377	2,030
Group V (weighted at 50%)	25,350	2,028
Group V (weighted at 115%)	1,204	96
Group V (weighted at 150%)	5,674	454
Group VI (weighted at 100%)	2,773	222
Group VII_A (weighted at 20%)	6,310	505
Group VII_A (weighted at 50%)	2,973	238
Group VII_A (weighted at 100%)	121,253	9,700
Group VII_B (weighted at 20%)	2,191	175
Group VII_B (weighted at 100%)	1,048	84
Group VIII (weighted at 115%)	197	16
Group IX (weighted at 100%)	6,494	520
Securitizations with risk grade 1(weighted at 20%)	1,117	89
Securitizations with risk grade 3(weighted at 100%)	1,464	117
	$ 215,911	$ 17,274

* Numbers may not add up due to rounding.

Credit risk assets under Standard Method at December 31, 2017

Item	Weighted assets by risk		Capital requirement	
Group II (weighted at 20%)	$	7,126	$	570
Group III (weighted at 100%)		13		1
Group IV (weighted at 20%)		2,984		239
Group V (weighted at 20%)		21,018		1,681
Group V (weighted at 50%)		19,824		1,586
Group V (weighted at 115%)		1,249		100
Group V (weighted at 150%)		6,995		560
Group VI (weighted at 100%)		2,422		194
Group VII_A (weighted at 20%)		5,187		415
Group VII_A (weighted at 50%)		10,832		867
Group VII_A (weighted at 100%)		105,262		8,421
Group VII_B (weighted at 20%)		4,413		353
Group VIII (weighted at 115%)		22		2
Group IX (weighted at 100%)		5,996		480
Securtizations with risk grade 3 (weighted at 100%)		1,174		94
	$	194,517	$	15,561

* Numbers may not add up due to rounding.

h) Evaluation of variances in financial income and economic value (unaudited information)

Banobras presents an increase in the Economic Value of Capital[2] of 8.61% in the quarter, mainly due to the increase in the average expected loss of the portfolio, promoted by a significant increase in the granting of new financing. During the year the economic value of stock holders' equity increased 10.30%, driven principally for the balance increase and the update of the transition matrices that are used as an input for the calculation. During the year, the Mexican Central Bank increased the reference rate to 8.25% considering the magnitude of the minimum wage increases. In like manner, at the end of December, shareholders' equity showed an increase of 7.63% with respect to September 2018 and of 14.55% with respect to the closing of the previous year.

It is important to emphasize that the credit portfolio, timely payment guarantees (TPG), as well as the structure of funding and risk mitigation through OTC derivatives, are the ones that have the greatest impact within the financial margin and Balance sheet risk of the Bank. Specifically, the OTC derivatives include the Extinguishing Cross Currency Swap, which has a contingency associated with its extinction clause, which is currently recognized at accounting level and valued through a methodology approved by the Comprehensive Risk Management Committee (CRMC).

Based on the methodology used to manage interest rate risk of the balance sheet and liquidity risk, at the end of December 2018, the Economic Value of Capital was calculated with respect to shareholders' equity, which increased 1.60% with respect to September 2018 and decreased 6.88% compared to December 2017.

[2] The Capital´s economic value is the intrinsic value of the balance sheet position, including credit risk. That's mean, the market values from the balance sheet position.

The Capital Economic Value considers an adjustment for credit risk due to the expected loss of the economic value of the portfolio, derivatives and negotiable securities, that this quarter represented 10.39% with respect to the Capital Economic Value, i.e. it increased 0.68 % in the quarter and increased 2.20% in relation to 2017. The increase in the expected loss is mainly explained by the increase in the portfolio, offset by a better risk profile of such. The expected loss of the economic value of the portfolio with respect to its economic value, (PEc / Vec) represents 2.20%, compared to 2.36% with the last quarter and 1.71% in the previous year, this expected loss considers the allowance for loan losses in each of the flows to be received from the portfolio at present value.

In order to know the sensitivity of the interest rates movements from balance sheet, an unfavorable movement of 30% in interest rates was simulated, with a potential loss in the Capital Economic Value of 3.92%, (ie 0.50% less than the previous quarter and 0.30% less than at the end of December 2017). This indicates that an unfavorable movement of 30% in the level of rates would generate a loss of 3.92% with respect to the future flows to be received and delivered brought to present value. The sensitivity of the financial margin, which measures the variation in the present value of interest income, estimates that a change of the same magnitude in interest rates, generates a capital gain of 28.02%, compared to the observed 27.35% In September 2018 and 27.71% at the end of last year.

The risk for each weight gained, that is, the ratio of Economic Value and Value at Risk (VaR/VE) was 1.52% and was lower than 2.20% in September 2018 and 1.40% in December 2017, this driven by an exit from the distribution of the scenario associated with the presidential elections in the United States that caused a considerable decrease in the volatility of the main risk factors. VaR of the Capital Economic Values calculated using the historical VaR method with a time horizon of 1 month and a confidence level of 99%.

The duration of the balance (DGAP) at the end of December 2018 was 0.14 years, which is lower than the DGAP calculated in September 2018 of 0.17 years, and to the DGAP calculated in December 2017, which was 0.26 years. The decrease observed in the year is explained by changes in the composition of the balance sheet. During the quarter, the restructuring of the portfolio and investments in securities favors the reduction of the DGAP in the balance sheet. The positive sign the DGAP, indicates that the Banobras Capital Economic Value is sensitive to increases in interest rates.

Descriptive statistics of the main metrics of exposure to credit and market risks are shown in the next page.

	2018	2017				Statistics	
	Dec-18	Sep 18	Jun-18	Mar-18	Dec-17	Average	Standard deviation
VaR / Capital VE	1.52%	2.20%	3.22%	1.45%	1.40%	**1.96%**	**0.78%**
Sensitivity in the VE of the Capital at 30%	-3.92%	-4.42%	-4.26%	-4.90%	-4.22%	**-4.34%**	**0.36%**
Sensitivity in the VE of the Financial Margin at 30%	28.02%	27.35%	30.68%	27.41%	27.71%	**28.23%**	**1.39%**
PE/Capital VE	10.39%	11.07%	11.28%	8.08%	8.19%	**9.80%**	**1.56%**
PE_c/VE_c	2.20%	2.37%	2.41%	1.72%	1.71%	**2.08%**	**0.34%**
DGAP (years)	0.14	0.17	0.19	0.30	0.26	**0.21**	**0.07**

VaR: Value at Risk of the Capital economic value
PE: Expected loss of the Capital Economic Value
VE_C: Portfolio Economic Value
VE: Capital Economic Value
PE_C: Expected loss of the Portfolio Economic Value
DGAP, for its acronym in Spanish: Duration gap in years

24. Comprehensive income

An analysis of the Bank's comprehensive income for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Net income	**$ 2,099**	$ 1,896
Loss from valuation of available-for-sale securities	**(886)**	(77)
Gain from valuation of derivatives cash flow hedges	**(2)**	16
Remeasurences of employee's defined benefits	**534**	351
Comprehensive income	**$ 1,745**	$ 2,186

25. Segment information

The Bank's activities are broken down into the following segments:

	Segment	Description of activities / Identification factor
a)	Financial agent of the Federal Government	Lending transactions using funding obtained from international financial entities and those carried out as an agent under mandate, in which the Bank acts on behalf of the Federal Government under the specific terms and conditions established by the Ministry of Finance and Public Credit and any standards that are applicable, based on the source of funding.
b)	First-tier loan transactions	Financing granted directly or through guarantees to state governments, municipal governments, agencies and trusts and the private sector for the execution of infrastructure and public services projects. These transactions also include loans granted to financial intermediaries, which represent 6.5% of the total loan portfolio.

c)	Treasury and investment banking transactions	Transactions in which the Bank acts on its own behalf and in support of its customers in the money market (debt securities under repurchase agreements), foreign exchange market (buying and selling of foreign currencies), derivatives (held-for-trading) and the safekeeping of securities. Also included are investments in securities and cash equivalents arising in the banking transactions.
d)	Fiduciary and technical assistance services	Under the trust, the Trust Founder (Federal Government, state governments, municipal governments, agencies and trusts, as well as the private sector) uses certain assets for a specific legal purpose to be performed by a fiduciary institution.
e)	Other operating (expenses) income	Activities aimed to support the state governments, municipal governments, agencies and trusts and the private sector by means of specialized sector-specific assistance, advisory services related to financial improvement and the evaluation and structuring of investment projects, among others, as part of the overall objective of finding the best way to channel infrastructure and public services investments in Mexico.

An analysis of the Bank's operating income by segment, as well as the reconciliation with the income statement at December 31, 2018 and 2017, is as shown in the following page.

Results as of December 31, 2018	Financial Agent of the Federal Government (a)	First-tier loan transactions(b)	Treasury and investment banking transactions (c)	Fiduciary service (d)	Technical assitance (e)	Other	Total
Interest income							
Cash and cash equivalents	$ -	$ -	$ 981	$ -	$ -	$ -	$ 981
Investments	-	-	28,498	-	-	-	28,498
Security repurchase agreements	-	-	1,618	-	-	-	1,618
Loan portfolio	16	36,058	-	-	-	-	36,074
Income on translation on UDIS	-	146	-	-	-	-	146
Commissions on the initial granting of loans	-	577	-	-	-	-	577
Other	-	-	-	-	-	30	30
	16	36,781	31,097	-	-	30	67,924
Interest expenses							
On interbank loans and other borrowings	10	1,446	-	-	-	-	1,456
Deposit founding	-	26,509	1,165	-	-	-	27,674
Security repurchase agreements	-	-	26,847	-	-	-	26,847
Loss in changes due to valuation	-	171	-	-	-	-	171
	10	28,126	28,012	-	-	-	56,148
Financial margin	**6**	**8,655**	**3,085**	**-**	**-**	**30**	**11,776**
Allowance for loan losses	-	467	-	-	-	-	467
Adjusted Financial Margin by credit risks	**6**	**8,188**	**3,085**	**-**	**-**	**30**	11,309
Commissions and fees collected	1	749	109	398	101	-	1,358
Commissions and fees paid	-	16	37	-	-	-	53
Intermediation income							
Unrealized gain (loss) of derivatives and items attributable to the risk being hedged	-	(187)	-	-	-	-	(187)
Securities trading activities	-	-	160	-	-	-	160
Foreign currecy transactions	-	-	91	-	-	-	91
Derivative financial opertaions	-	-	624	-	-	-	624
Interest on held-for-trading derivatives	-	-	303	-	-	-	303
Unrealized loss on held-for-trading derivatives	-	-	(25)	-	-	-	(25)
Secutities valuation	-	-	(357)	-	-	-	(357)
Other operating (expenses) income	-	3	-	-	-	(7,472)	(7,475)
Administrative and promotional expenses	10	885	154	205	93	1,519	2,866
Operating income	**(3)**	**7,846**	**3,799**	**193**	**8**	**(8,961)**	**2,882**
Caused income tax	-	-	-	-	-	788	788
Deferred income tax (net)	-	-	-	-	-	(5)	(5)
Income before discontinued operations	**(3)**	**7,846**	**3,799**	**193**	**8**	**(9,744)**	**2,099**
Discontinued operations	-	-	-	-	-	-	-
Net income	**$ (3)**	**$ 7,846**	**$ 3,799**	**$ 193**	**$ 8**	**$(9,744)**	**$ 2,099**

Results as of December 31, 2017	Financial Agent of the Federal Government (a)	First-tier loan transactions(b)	Treasury and investment banking transactions (c)	Fiduciary service (d)	Technical assitance (e)	Other	Total
Interest income							
Cash and cash equivalents	$ -	-	$ 872	$ -	$ -	$ -	$ 872
Investments	-	-	21,414	-	-	-	21,414
Security repurchase agreements	-	-	1,018	-	-	-	1,018
Loan portfolio	18	$ 30,136	-	-	-	-	30,154
Income on translation on UDIS	-	174	-	-	-	-	174
Commissions on the initial granting of loans	-	309	-	-	-	-	309
Other	-	-	-	-	-	42	42
	18	30,619	23,304	-	-	42	53,983
Interest expenses							
On interbank loans and other borrowings	11	1,353	-	-	-	-	1,364
Deposit founding	-	20,657	1,110	-	-	-	21,767
Security repurchase agreements	-	-	19,524	-	-	-	19,524
	11	22,010	20,634	-	-	-	42,655
Financial margin	**7**	**8,609**	**2,670**	**-**	**-**	**42**	**11,328**
Allowance for loan losses	-	2,215	-	-	-	-	2,215
Adjusted Financial Margin by credit risks	**7**	**6,394**	**2,670**	**-**	**-**	**42**	**9,113**
Commissions and fees collected	2	429	6	384	56	-	877
Commissions and fees paid	-	21	29	-	-	-	50
Intermediation income							
Unrealized gain (loss) of derivatives and items attributable to the risk being hedged	-	68	-	-	-	-	68
Securities trading activities	-	-	(21)	-	-	-	(21)
Foreign currecy transactions	-	-	61	-	-	-	61
Derivative financial opertaions	-	-	16	-	-	-	16
Interest on held-for-trading derivatives	-	-	282	-	-	-	282
Unrealized loss on held-for-trading derivatives	-	-	13	-	-	-	13
Secutities valuation	-	-	(97)	-	-	-	(97)
Other operating (expenses) income	-	1,058	-	600	-	(5,986)	(4,328)
Administrative and promotional expenses	9	897	157	207	94	1,541	2,905
Operating income	**-**	**7,033**	**2,742**	**777**	**(38)**	**(7,485)**	**3,029**
Caused income tax	-	-	-	-	-	1,003	1,003
Deferred income tax (net)	-	-	-	-	-	130	130
Income before discontinued operations	**-**	**7,033**	**2,742**	**777**	**(38)**	**(8,618)**	**1,896**
Discontinued operations	-	-	-	-	-	-	-
Net income	$ -	**$ 7,033**	**$ 2,742**	**$ 777**	**$ (38)**	**$(8,618)**	**$ 1,896**

(a) At December 31, 2018, the Bank's assets and liabilities as a financial Agent of the Federal Government are $581 and $580, respectively ($673 and $677 in 2017).

At December 31, 2018, the Bank's cash flows from the assets and liabilities associated with its transactions as a financial Agent of the Federal Government are $92 and $102, respectively ($398 and $399 in 2017).

(b) At December 31, 2018, the Bank's first-tier assets and liabilities are $433,650 and $391,128, respectively ($402,425 and $360,934 in 2017).

At December 31, 2018, the Bank's cash flows from the assets and liabilities associated with first-tier loans are $31,225 and $30,194, respectively ($22,840 and $15,644 in 2017).

(c) At December 31, 2018, the Bank has assets and liabilities totaling $392,946 and $387,115, respectively ($342,849 and $344,174 in 2017), related transactions in cash and cash equivalents, securities, security repurchase agreements, and held-for-trading derivatives.

At December 31, 2018, the Bank's cash flows from the assets and liabilities associated with its treasury and investment banking transactions totaled $50,097 and $42,941, respectively ($30,225 and $29,986 in 2017).

25. Financial margin

An analysis of the financial margin presented in the statement of income for the years ended December 31, 2018 and 2017, is as follows:

	2018		
Financial Margin	**Mexican peso and UDIs**	**Foreign currency**	**Total**
Interest income:			
Interest on cash and cash equivalents	$ 970	$ 11	$ 981
Interest and returns earned on collateral granted	26	-	26
Interest and returns on investments in securities (a)	28,311	161	28,472
Interest on performing loan portfolio (b)	34,382	1,691	36,073
Interest on past-due loan portfolio	1	-	1
Commissions on the initial granting of loans (c)	514	63	577
Interest on security repurchase agreements (d)	1,618	-	1,618
Dividends of net shareholders' equity	-	30	30
Foreign translation	-	146	146
	65,822	2,102	67,924
Interest expense:			
Interest on time deposits (e)	17,915	19	17,934
Interest on debt securities issued (e)	8,282	293	8,575
Interest on interbank and other borrowings (f)	803	653	1,456
Interest on security repurchase agreements (g)	26,803	44	26,847
Debt placement at discount (e)	1,165	-	1,165
Loss due to changes in valuation	171	-	171
	55,139	1,009	56,148
Financial margin	$ 10,683	$ 1,093	$ 11,776

Financial Margin	2017 Mexican peso and UDIs	2017 Foreign currency	2017 Total
Interest income:			
Interest on cash and cash equivalents	$ 872		$ 872
Interest and returns earned on collateral granted	116		116
Interest and returns on investments in securities (a)	21,264	$ 34	21,298
Interest on performing loan portfolio (b)	28,862	1,290	30,152
Interest on past-due loan portfolio	2	-	2
Commissions on the initial granting of loans (c)	261	48	309
Interest on security repurchase agreements (d)	1,018	-	1,018
Dividends of net shareholders' equity	-	42	42
Foreign translation	-	130	130
UDIs Translation	44	-	44
	52,439	1,544	53,983
Interest expense:			
Interest on time deposits (e)	14,459	7	14,466
Interest on debt securities issued (e)	5,942	249	6,191
Interest on interbank and other borrowings (f)	864	500	1,364
Interest on security repurchase agreements (g)	19,503	21	19,524
Debt placement at discount (e)	1,110	-	1,110
	41,878	777	42,655
Financial margin	$ 10,561	$ 767	$ 11,328

a) An analysis of interest on each of the categories of investments in securities at December 31, 2018 and 2017 is as follows:

	2018	2017
Trading	**$ 26,390**	$ 20,765
Avaliable-for-sale	**655**	40
Held-to-maturity	**1,266**	493
Hedging derivative interest	**161**	-
	$ 28,472	$ 21,298

b) An analysis of interest on the performing loan portfolio is as follows:

	2018	2017
Commercial loans		
Business and commercial	**$ 10,910**	$ 8,944
Financial institutions	**2,162**	1,703
Government entities	**21,951**	19,014
Residential mortgages		
Medium class and residential	**5**	6
Loans granted as financial agent of the Federal Government	**16**	18
Hedging derivative interest	**1,029**	467
	$ 36,073	$ 30,152

As of December 31, 2018, interest on past-due loan portfolio amounted to $1 in mortgage loan portfolio. In 2017, they amounted to $2 ($1 in Business or commercial activity and $1 in home mortgage loans).

c) An analysis of commissions on the initial granting of loans is as follows:

	2018	2017
Commercial loans		
Business and commercial	**$ 506**	$ 224
Financial institutions	**21**	7
Government entities	**50**	78
	$ 577	$ 309

d) As of December 31, 2018 and 2017, interest in favor on security repurchase agreements correspond to Government debt of $1,618 and $1,018, respectively.

e) An analysis of interest on traditional deposits is as follows:

	2018	2017
Interest on term deposits	**$ 17,925**	$ 14,452
Interest on issued credit instruments	**7,748**	5,543
Discount for debt placement	**1,165**	1,110
Interest on hedging transactions	**836**	662
	$ 27,674	$ 21,767

f) An analysis of interest on interbank loans and other borrowings is as follows:

	2018	2017
International entities	**$ 1,033**	$ 807
Banxico bids	**278**	418
Hedging costs (FOAEM)	**18**	18
Interest on hedging transactions	**127**	117
Other	**-**	4
	$ 1,456	$ 1,364

g) An analysis of interest expense for security repurchase agreements is as follows:

	2018	2017
Government debt	**$ 26,030**	$ 19,328
Bank debt	**817**	196
	$ 26,847	$ 19,524

27. Intermediation income

An analysis of this caption for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Fair value valuation result:		
Trading securities	**$ (357)**	$ (96)
Unrealized gain (loss) on derivatives and items attributable to the risk being hedged (1)	**(212)**	80
Interest income on held-for-trading derivatives	**303**	282
	91	362
Purchase/sale result:		
Direct transactions	**160**	(20)
Derivative transactions	**624**	15
	784	(5)
Unrealized gain on translation of foreign currencies:		
Gain on the operation of foreign currencies	**91**	61
	$ 609	$ 322

(1) For the years ended December 31, 2018 and 2017, an analysis of the offsetting between the changes in the fair value of derivatives recognized in the statement of income in the Intermediation income caption, and the hedged positions, is as follows:

	2018	2017
Gain or loss due to changes in the valuation of hedging instruments	**$ 686**	$ 282
Gain or loss due to changes in the valuation of hedged positions	**(873)**	(214)
	$ (187)	$ 68

28. Other Operating (Expenses) Income

An analysis of this caption at December 31, 2018 and 2017, is as follows:

	2018	2017
Interest on employee loans	**$ 75**	$ 70
Recoveries	**34**	170
Allowance for loan losses excess (Note 12)	**-**	824
Trust rights	**-**	599
Balances in favor for taxes	**-**	80
Gain or loss for UDI valuation for allowance for loan losses	**-**	77
Income from derivative breakage	**30**	-
Fee paid to the Federal Government (1)	**(7,585)**	(6,075)
Allowance for loan losses	**(38)**	(27)
Other operating income (expense)	**9**	(46)
	$ (7,475)	$ (4,328)

(1) For 2018 and 2017, based on the Federal Income Act and the Internal Regulations of the SHCP, through documents 368.-066/2018 and 102-B-056 issued by that Ministry on November 13, 2018 and December 11, 2017, respectively, the Institution was instructed to pay public use taxes in the amount of $7,585 and $6,075, respectively, for granting the sovereign guarantee of the Federal Government.

29. Property in Trust or Under Mandate

An analysis of this caption at December 31, 2018 and 2017, is as follows:

		2018		2017
Guarantee trusts	**$**	**15**	$	45
Administrative trusts		**488,990**		436,640
		489,005		436,685
Pension plan trusts		**21,664**		20,956
Mandate		**9,086**		8,873
Total assets in trust or mandate	**$**	**519,755**	$	466,514

Bank's income from its fiduciary activities at December, 2018 and 2017, amounted to $399 and $383, respectively.

30. Assets in custody or under management

An analysis of this caption at December 31, 2018 and 2017, is as follows:

		2018		2017
Property held for safekeeping (a)	**$**	**325,143**	$	290,981
Property held under management (b)		**1,623**		509
Other		**6**		46
	$	**326,772**	$	291,536

a) Securities held in custody

An analysis of securities held in custody at December 31, 2018 and 2017, is as follows:

	2018			2017		
	Securities		**Fair value**	Securities		Fair value
PRLV	**217,333,461,138**	**$**	**188,084**	186,399,858,406	$	157,281
BPAS	**983,762,091**		**9,468**	127,883,268		13,056
BONDES	**780,070,275**		**78,089**	705,580,843		70,600
Deposit certificates	**126,675,392**		**12,703**	196,596,628		19,716
Domestic senior notes	**160,247,251**		**18,014**	148,267,574		16,565
CEBIC	**1,868,226**		**1,237**	1,868,226		1,235
BPAGT	**1,125,712**		**113**	35,063,398		3,510
CETES	**12,846,459**		**128**	133,519,463		1,308
Fix-rate bonds	**31,101,620**		**3,041**	10,005,963		1,029
Udibonos	**2,685,012**		**1,657**	3,064,320		1,858
Debt instruments	**580**		**693**	580		666
	219,433,843,756		**313,227**	187,761,708,669		286,824
Shares	**5,176,234,010**		**11,916**	6,453,255,330		4,157
	224,610,077,766	**$**	**325,143**	194,214,963,999	$	290,981

b) Guarantees received by management

At December 31, 2018, the Institution received Guarantees for derivative transactions for $1,623, while in 2017 it received guarantees for $509 ($489 for derivatives and $20 for repo agreements).

At December 31, 2018 and 2017, the amount of income from services in custody and administration amounts to $6 and $46, respectively.

31. Security Repurchase Agreements

An analysis of collateral for security repurchase agreements at December 31, 2018 and 2017 shown in memorandum accounts is as follows:

	2018	2017
Collateral received by the Bank (1)	**$ 6,193**	$ 9,276
Collateral received and sold or delivered in guarantee by the Bank (2)	**$ 5,983**	$ 7,006

(1) The securities used in these transactions are bank and government securities, all of which were received and pledged as collateral under security repurchase agreements (Note 8). An analysis is as follows:

	2018	2017
Fixed-rate bonds	**$ 152**	
BPAS	**3,859**	$ 5,502
BONDES	**1,001**	2,433
CETES	**500**	685
CEBIC	**503**	505
BPAG	**178**	151
	$ 6,193	$ 9,276

(2) An analysis of collateral received and sold or pledged in guarantee by the Bank at December 31, 2018 and 2017, is as follows:

	2018	2017
Fixed-rate bonds	**$ 152**	
CEBIC	**503**	$ 505
CETES	**290**	416
BONDES	**1,001**	932
BPAS	**3,859**	5,002
BPAG	**178**	151
	$ 5,983	$ 7,006

32. Other memorandum accounts

At December 31, 2018 and 2017, balances in other memorandum accounts are as follows:

	2018	2017
Amounts agreed on derivative financial instruments	**$ 618,196**	$ 620,577
Induced credit:		
Guarantees amount guaranteed	**11,866**	29,583
Guarantees amount not guaranteed	**57,427**	98,498
Contingent lines amount guaranteed	**28**	26
Contingent lines amount not guaranteed	**298**	306
Guaranteed amount for refinancing	**1,719**	1,719
Guaranteed amount for guarantors	**1,719**	1,180
	72,517	131,312
Liability outstanding lines of credit	**7,508**	9,124
Unrecoverable loans applied against allowance for loan losses	**782**	782
Other memorandum accounts	**15,104**	15,935
	$ 714,107	$ 777,730

33. Comprehensive Risk Management (Unaudited information)

In conformity with the National Banking and Securities Commission (CNBV) requirements regarding the disclosure by credit institutions of their comprehensive risk management policies and procedures, the Bank’s policies and procedures, as well as relative quantitative information, are described as follows.

Purpose of Comprehensive Risk Management

The purpose of comprehensive risk management in Banobras is to identify, analyze, measure, oversee, limit, control, disclose and treat the different risks to which the Bank is exposed in their activities with the purpose to safeguard its capital through the application of mitigation strategies and the integration of risk culture in daily transactions, and establishing mechanisms that will allow the Bank to execute its activities at risk levels aligned with their risk profile desired, net capital and operational capacity.

Structure and Organization for the proper functioning of Comprehensive Risk Management

The Board of Directors has created a Comprehensive Risk Management Committee (CRMC) whose purpose is to manage the risks to which the Bank is exposed and to ensure that the Bank's activities fit the desired risk profile according to the Framework of its comprehensive risk management, and the overall risk exposure limits approved by the Board of Directors.

Board of Directors

The activities carried out by the Board of Directors include to approve and review, at least once a year: i) the Bank’s desired risk profile, ii) the Framework of its comprehensive risk management, iii) the levels of liquidity and capitalization with respect to their objectives and strategic plan, iv) the contingency funding plan and v) the overall risk exposure limits by type of risk and the mechanisms for carrying out corrective measures.

Additionally, it must monitor the implementation of the strategy of Comprehensive Risk Management.

Comprehensive Risk Management Committee (CRMC)

The CRMC is a collegiate body to which the Board of Directors delegates the responsibility of managing the Bank’s risks.

This CRMC has powers over the Bank’s overall risk management functions, irrespective of whether they are recorded on or off the balance sheet, and over the control of the Bank’s market, credit, liquidity, operating and not quantifiable risks.

The CRMC is chaired by the Bank’s General Director and is comprised of: i)at least one member of the Board, ii) at least one independent risk expert named by the Board, iii) the General Director, iv) the head of the Comprehensive Risk Management unit, v) the head of the Bank's internal audit function and vi) the persons who are named to the committee; which may participate with voice but no vote.

The Committee's functions are governed by the general rules and practices for credit institutions issued by the Commission.

Risk Management Deputy General Department

The Risk Management Deputy General Department (RMDGD) aids the General Director, the CRMC, and the Board of Directors in the comprehensive risk management process as part of the overall aim of safeguarding the Bank's capital and ensuring the sustainability of its activities.

The RMDGD and its officers are independent from the business areas at the both functional level and the organizational level to prevent conflicts of interest and ensure the adequate segregation of duties.

Systems

The RMDGD has different systems and applications that facilitate the measurement, monitoring and control of the risks to which the Bank is exposed, it generates the corresponding reports and feature support and control mechanisms that allow recovery data of the systems used in risk management and valuation models.

The systems and applications of the RMDGD are described in sections corresponding to each type of risk.

Hedging policies and/or risk mitigation

The Bank operates with derivatives financial instruments in over-the-counter markets to cover:

- The risks created by liabilities when they are in rates, exchange rates and/or terms that differ from those assets to which the capital will direct.

- The risks created by assets, when they are in rates, exchange rates and/or terms that differ from the liabilities that fund the position.

- The interest rate and/or currency to the Bank's clients as a tool for strengthening its credit structure, in the terms authorized by the various governing entities of the Bank.

- Structurally the balance sheet of the Bank and/or improve funding costs, taking advantage of the prevailing conditions in the financial markets.

Strategies and processes for monitoring the continuing effectiveness of hedges or mitigating risks

The "Methodology to measure the effectiveness of the hedge in derivative financial instruments" allows to quantify the effectiveness with which the derivative financial instruments mitigate or cover the risk arising from their hedged or primary positions. The effectiveness of the hedging reflects the degree in which the changes in fair value of a hedged or primary item subject to risk factors, are canceled or offset by changes in the behavior of the designated hedging instrument.

The roles and responsibilities of the areas involved in the calculation and monitoring of the effectiveness of hedging financial instruments contracted by the Bank, the criteria to be observed, as well as the calculation tools and the corresponding reports are established in the "Policies and procedures to measure the effectiveness of the hedge in derivative financial products".

Additionally, individual and specific limits are set by counterparty risk to limit the concentration of hedges accepted. In the case of transactions with financial derivatives, the mark to market positions for the Bank, is considered.

Collateral derivatives management

The Bank has derivative operations portfolios with counterparties that include financial and non-financial institutions. For the operations there are contracts that allow the operation of collaterals.

The main collaterals in amount are maintained with financial counterparts, specifically, Multiple Banking.

Such collateral includes the following assets:

- Cash: Mexican pesos and USD
- National government securities denominated in Mexican pesos

Given the type of collaterals, the concentration measurement of accepted hedges does not apply.

The active collaterals are managed through the Ikos Guarantees system which contains the contractual parameters for each counterparty, it carries the balance of each collateral and calculates calls to margin daily according to the specific parameters applicable to each collateral.

For currency collaterals it is not necessary to make a valuation of the balance of these, the collaterals in securities are valued using the price of the respective government value contained in the vector of the authorized price provider. The processes for the management of the aforementioned collaterals are described in the *Procedures for Collateral Operations Manual*.

a) Credit risk

The Bank has a global limit and with specific limits of exposure to credit risk by business line which should be aligned with the desired risk profile.

The overall limit measures the maximum exposure to credit risk that the Bank is willing to take and is determined as the sum of the specific limits of exposure to credit risk. The specific limits of exposure to credit risk are determined for each group of potential credit risks, including financial counterparties, considering the desired risk profile of the Bank, which is based on an objective level of the index capitalization.

These limits described above are established by considering: i) an efficient allocation of capital, ii) the creditworthiness of borrowers, iii) the capitalization in force and potential requirements from new offers and iv) the net capital of the Bank.

In addition, to individually monitor and measure the credit risk, maximum borrowing limits (MBL) are established, that are determined for each of the operations in which the Bank participates. Within these limits, the corresponding to counterparty risk are included.

For the purpose of granting credit and financial guarantees, a risk premium is included in the asset rates associated with the operation of the Bank, likewise the total expected loss is calculated the loan portfolio VaR.

Concentration risk is controlled by setting concentration and common risk limits in accordance with the general provisions applicable to credit institutions. The necessary capital charge is obtained to cover the expected loss that the Bank could face due to the concentration of its private sector portfolio, the funding lines for financial intermediaries, companies and contractors, and states and municipalities without federal participations (own revenues).

Methodologies, Policies and Procedures and Systems or Applications

i) **Maximum Borrowing Limits (MBL).** Each methodology determines the MBL under a prudential criterion and through a quantitative and qualitative evaluation. The quantitative evaluation is based on the analysis of flows, financial statements, and credit capacity, as well as on the ceiling of net financing in the case of Maximum Indebtedness Limits for States and Municipalities (LETEyM, acronym in Spanish); The qualitative evaluation considers the analysis of various variables specific to each line of business, including the ratings granted by the rating agencies (when there is a practice in the market to qualify), which serves to weigh the results of the quantitative analysis. The limits are determined for: (i) government entities, FIMEM and municipalities, (ii) water productive entities, (iii) own cash flows source loans, (iv) companies and contractors, (v) financial intermediaries (lending, leasing, commercial banking and foreing affiliates, foreign banks, development banks, brokerage, non-financial counterparties with hedging transactions, productive state companies, as well as State Controlled Federal Public Government companies and agencies and (vi) instruments of the Treasury investment portfolio. For the determination of the limits, weighting factors that are obtained from the Methodology are taken into account for determination of the weighting factors by term and rating for the maximum limits of indebtedness and of the risk semaphores, which also include the procedure for obtaining the risk traffic lights for the follow-up of credits granted to States as well as accredited from the private sector. For the determination of the MBL, information on the probabilities of noncompliance obtained from internal models that are documented in the Integral Risk Management manual of the Institution is considered.

There is a “Methodology to calculate the resources to be placed in trust for loans whose means of payment or guarantee is a trust or mandate”. This computation includes financial variables that consider the amount of revenues to be placed in a trust and their volatility, as well as the payment profile under stress conditions.

The Bank has established controls and online systems to limit counterparty credit risk of financial intermediaries and state governments and municipal governments. There is a system that aims to calculate and support the cumulative maximum borrowing limits of states and municipalities according to the current methodology approved by the CRMC.

There is an application developed in order to apply the methodology for determining maximum borrowing limit for financial intermediaries (MBL_{INT}) authorized by the CRMC. It also provides information needed for monthly and quarterly risk reports.

In the case of financial counterparties with which it has entered into transactions with derivatives, it has established contractual operational tolerances (thresholds) to ensure that, if the market value of the transaction portfolio exceeds such limit in a manner favorable to the Bank, it will received cash and/or highly liquid instruments in guarantee.

The monitoring of counterparty risk includes the exposure with financial intermediaries, and in the case of transactions with financial derivatives, it is considered to market positions in favor of the Bank. The Bank has counterparty limits are available for Treasury Investment Portfolio instruments that are subject to credit risk.

In the *"Credit Risk Management Policies and Procedures"* establish the policies and procedures to determine overall, specific, and operational credit risk limits (LET), including counterparty risk, as well as the timely monitoring of the credit quality ratings assigned by the rating agencies.

ii) **Methodology to determine the risk premium.** Methodology to obtain the risk premiums for the loans granted by Banobras. Through the expected loss, the default risk of the borrower is charged and a concentration premium is considered.

The premium is calculated by equaling the expected loss to the amount charged for credit risk. Premiums are obtained from discount curves by rating. At this premium can be added the concentration premium that depends on the individual charge of capital by concentration established in the Methodology to calculate the concentration index of a portfolio and the capital charge by concentration for the portfolio of Banobras.

Policies and procedures for the calculation of risk premiums are established in the "Policies and procedures for the administration of credit risk".

iii) **Methodology used to determine the risk premium for consideration of the financial guarantees and the risk component of the commission for the availability of contingent lines of credit.** The calculation is based on obtaining the expected loss together with the unexpected loss that Banobras would face in the event of default of the timely payment of the guarantees, Service Provision Projects (PPS), Irrevocable Pari Passu, and contingent lines of credit.

The "Credit Risk Management Policies and Procedures" establish the policies and procedures used to calculate these considerations.

iv) **Methodology for the calculation of the compensation for risk of the Guaranteed Refinancing program.** The consideration is calculated by estimating the amount that Banobras must charge to cover the expected loss at the time of refinancing, assuming that the risk premium is unique during the life of the loan and that it is the same as the commercial bank would charge. Additionally, a concentration premium defined in the Methodology for calculating risk premiums may be included.

Policies and procedures for the calculation of the compensation are set forth in the document of "Policy and procedures for determining the compensation for risk of the Guaranteed Refinancing program".

v) **Methodology for calculating the valuation adjustment for credit risk (CVA, for its acronym in Spanish)**. Methodology for the calculation of credit risk for financial instruments under which the potential potential loss of financial operations is estimated with respect to credit risk, which is calculated as the probability of default due to the expected exposure of the financial operations of each counterparty. As well as, the corresponding stress scenarios.

Additionally, it incorporates the procedures for the calculation of the Expected Positive Exposition (EPE, by its acronym in Spanish) with the objective of establishing which are of increasing nature and the calculation of the Wrong Way Risk (WWR) which measures possible adverse correlations between the exposure and credit quality.

The policies and procedures for the calculation of the CVA are established in the document "Policies and procedures for the administration of credit risk".

vi) **Methodology used to determine the limits and metrics of the desired risk exposure to credit risk profile.** Methodology used to determine the structure of specific limits and the overall limit of exposure to credit risk, as well as the criteria for the redistribution of limits and for the estimation of nominal limits and consumption of limits. The methodology for estimating the desired risk profile and restriction level for the credit risk metrics for capital consumption is included, seeking to complement the structure of limits regarding composition of the portfolios.

vii) **Methodology for determining the credit Value at Risk (VaR).** The credit VaR represents the highest unexpected loss that could be incurred with a quarterly investment horizon and a confidence level of 99%. In addition, the credit VaR for the investment portfolio in securities under this assumptions.

The expected loss is the mean of the distribution of losses and gains. In other words, it indicates the average possible loss and is related to the Bank's preventive provisions for credit risks of the loan portfolio. Unexpected loss is the loss in excess of the expected loss as measured by VaR.

The methodology and the system are based on the Creditmetrics model, which was adapted to include the essential characteristics of Banobras' principal borrowers (state governments, municipalities and projects with their own source of funding), as well as their correlations and recovery rates.

For analysis, sensitivity test are included to determine the strength of the capital under various scenarios involving the creditworthiness of the borrowers included in the portfolio, including extreme and systematic scenarios.

Relevant policies and procedures are documented in the "Policies and procedures for determining the credit VaR ".

viii) Methodology to calculate the concentration index of a portfolio and the capital charge by concentration for the Banobras portfolio. The analysis of the concentration of the portfolio is performed by geographic region, institutional program and state. The computation of the portfolio concentration rates is performed as follow up to concentration risk and the Bank's capital sufficiency. In like manner, the concentration index is obtained for those positions that are outside of the Institution's balance sheet (memorandum accounts). These concentration rates are the inverse of the Herfindahl-Hirshman index (HHI), which measures the number of debtors that represent a larger portion of the portfolio. Maximum concentration occurs when a small number of individual borrowers or individual counterparties represent a larger portion of the portfolio compared to the rest of the borrowers or counterparties. The HHI concentration index is defined as the ratio between the sum of the squared balance of each borrower or counterparty over the sum of the squared balances. Additionally, the method to calculate the capital charge necessary to cover the loss that Banobras could face due to the concentration of its portfolio is defined.

The policies and procedures established to determine risk concentration are carried out based on the guidelines established in the General Regulatory Provisions applicable to Credit Institutions published by the CNBV and on the information provided by customers through forms used to detect any common transactional risks. These are documented in the: i) "Policies and Procedures for common risk management and diversification of credit risks" and ii) " Policies and procedures for the analysis and monitoring of the concentration and the charge for capital by concentration for the Banobras portfolio".

The Bank has an application that aims to make the calculation of the credit value at risk (credit VaR) and concentration index of the portfolio, by business, by geographic region, by risk level and consolidated level, under the current methodology approved by the CRMC.

The application generates and stores transition matrices using different user-defined parameters. In this way, matrices by business line, geographic region or type of borrower or counterparty can be obtained.

At starting the simulation process (Montecarlo), the application lets you select one of these matrices for use in the calculation and generates the loss distribution of the portfolio under different scenarios, including extreme conditions scenarios.

The application also calculates the Herfindahl-Hirschman concentration index of the Bank's portfolio and its inverse. Both results can be calculated by varying different parameters, such as geographic area, program, federal entity.

Additionally, it has an application for Identifying Common Risk that manages the information needed to carry out the identification of common risk in credit transactions, based on the information that business areas record.

The application identifies, using a recursive search algorithm, all those individuals or entities that may be related by ownership to the client or potential client that are captured in the application.

Likewise:

- It also generates formats, listings and regulatory reports required within the management process.

- It issues an opinion of common risk, which allows the business areas to monitor relationships and potential links between the accredited.

ix) **Methodology to determine extreme scenarios and credit risk sensitivity tests.** This methodology allows calculating stress scenarios of the risk factors that generate credit risk. Credit risk VaR sensitivity scenarios, concentration risk and changes in the rating of the borrowers and the value of the guarantees are determined.

x) **Methods of grading the Loan Portfolio based on general regulatory provisions applicable to credit institutions.** The allowances of the loan portfolio are determined by applying grading methods established by the CNBV and in compliance with General Regulatory Provisions applicable to credit institutions. In like manner, the additional preventive reserves that are constituted to cover risks that are not projected in the Provisions are determined and applied to private sector projects in the construction phase.

Graded portfolios, as provided in article 110 of the Provisions, includes direct or contingent loans granted to federal and municipal entities and decentralized bodies which correspond to loans granted for investment projects using the Bank's own funding, financing of entities or individuals with business activities and financial entities. Also, includes guarantees granted to state and municipal governments and entities with business activities. Some financing from the Federal Government, are reserved in conformity with article 112. Likewise, considering the aforementioned provisions, the level of risk is determined for the portfolio of consumer and mortgage loans extended to ex-employees.

b) Market risk

To monitor and control exposure to market risk, the Bank has for each of its transactions desks and/or business lines, a consolidated structure of limits of market risk that should be aligned to the risk profile desired by the Bank.

Transaction desks (Front Office) are free to structure businesses and portfolios within their investment/operation policies, considering the structure of limits of exposure to market risk.

The limit structure is comprised of: i) overall limit of exposure to market risk, which is set for the consolidated position of the institution, ii) specific limits of exposure to market risk established for each transaction desk and/or business line, iii) concentration limits that are intended to control the amount traded of certain instruments or financial assets and, iv) operator limits, established to limit the risk exposure in the concentration of financial transactions and are allocated according to level of responsibility of the operator and the type of operation.

Methodologies, Policies and Procedures and Systems or Applications

i) **Market Value at Risk (VaR).** VaR is an estimated of the expected loss that could arise during a given investment horizon and with a set confidence level. Starting November 1, 2013, calculations of market risk are determined by the Conditional value at risk (CVaR) methodology. The selected investment horizon is one business day with a range for 250 historical observations and a theoretical confidence level of 97%, which is described in the “Methodology for the calculation of Market Value at Risk (VaR)”.

   Calculations of CVaR are for each of the transaction desks (money market, foreign exchange and derivatives), which consolidate the position of Banobras. This calculation is determined for held-for-trading securities and repurchase agreements; as well as for values and classified derivative and held-for-trading securities.

   For the valuation of market and derivative instruments in the Banobras’ portfolios, the Bank has the “Methodology to evaluate the market instruments in Mexico” and the “Methodology to evaluate the derivative instruments” that allow it to determine the interest rate risk through the valuation of the instruments that form part of the Banobras investment portfolios.

   Using daily information, the market CVaR estimates are compared to the theoretical losses and gains (caused solely by changes in market variables) and for the same period. The purpose of this process is to adjust, if considered necessary, either the models or the assumptions used in the market VaR computation. This back testing is carried out monthly and presented quarterly in the report to the Bank's Board of Directors.

   The estimated Conditional VaR for the held-to-maturity position is informative since it is not considered within the consumption of the overall limit or specific to the transaction table.

   The control of the overall limit and specific market risk limits is carried out by the method of Conditional VaR.

ii) **Extreme scenarios and market risk sensitivity tests.** The models and parameters that allow the analysis of the risk factors that are relevant for the Banobras portfolio and identify the stress and sensitivity tests with the most impact on this evaluation are described in the “Methodology to determine stress and sensitivity tests for market risk”.

iii) **Methodology to estimate the replacement value of financial operations**. The methodology used to estimate the replacement value at a future time of financial instruments in the portfolio, in the event that counterparties fail to comply with its obligations to Banobras.

To identify, measure and monitor the market risk, the Bank has the "Policies and procedures for market risk management" and “Operating Framework for the Treasury Investment Portfolio”.

Market CVaR computations for the transaction desk, sensitivity tests and stress tests are performed daily, as well as limit controls. This information is reported to general management, to the person responsible for internal audit and those responsible for overseeing the business units.

The Bank has an application that aims to make the calculation of market VaR of transaction desks (money desk, exchange desk, derivatives desk) and at a consolidated level, stress and sensitivity tests, as well as the calculation and monitoring of the effectiveness of derivative instruments for hedging purposes.

c) Liquidity risk

Periodically, Banobras liquidity gaps are calculated to monitor the liquidity risk arising from the difference between the asset and liability flows of the institution.

Banobras has the federal government guarantee on their liabilities, and is considered in the market as a low-risk issuer. Therefore, the possibility that the institution faces liquidity problems is low. However, it has a Contingency Financing Plan where strategies, policies and procedures to follow in case of unexpected liquidity requirements or problems to liquidate assets are determined.

It has also established a framework of indicators to monitor and control exposure to liquidity risk.

Methodologies, Policies and Procedures and Systems or Applications

i) **Risk liquidity management.** The liquidity risk involves the loss of ability to meet present and future cash flow requirements affecting daily operations or the financial conditions of the institution, the potential loss is measured and controlled in Banobras through models and indicators in the “Risk management methodology for balance sheet interest rate risk and liquidity risk” which includes management with information regarding assets and liabilities, the liquidity and duration gaps the maturity, accounting, cash flow, and repricing gaps, liquidity indicators and the gap break-even indicator.

The break-even gap estimates the point in time at which the flows of assets and liabilities are equal and reflects the moment in time in which the active flows are sufficient to liquidate the passive flows. This indicator can be calculated for any type of flow gap, and the purpose is to observe the behavior of the flows and make business decisions around this point.

The liquidity gap is determined each month to identify the concentration risks for asset and liability cash flows over different terms to which Banobras is subject, and also to determine minimum capital requirements.

The projection of these flows uses implicit market rates. The asset and liability positions are added together algebraically in order to determine the liquidity gap and meet the amount that must be refinanced or invested for each period.

To calculate liquidity gap, the credit portfolio it must be consider the market positions of money, own emissions, interbank loans and derivative financial instruments.

On the other hand, a structure of indicators was established to monitor and control the exposure to liquidity risk and there are "contingency" and "follow-up" indicators. In case the levels established for the contingency indicators are not met, the contingency financing plan will be activated.

The calculation model is also used to determine the liquidity risk premium that reflects the additional cost that must be charged for granting financing, to cover the liquidity risk caused by the difference between the financing term and the target funding term.

Furthermore, the application of extreme scenarios and liquidity risk sensitivity tests are also established in the *"Policies and Procedures for Liquidity Risk Management."*

ii) **Methodology to determine stress and sensitivity tests of liquidity risk and Capital Economic Value.** It is used to calculate stress scenarios of risk factors that generate liquidity risk. The scenarios are used to assess the effect in a situation of stress in the cost of total funding, liquidity gaps, the Capital Economic Value and current ratio of Banobras.

It has an application to calculate the Bank's monthly liquidity gap, by term and type of currency under the current methodology adopted by the CRMC.

The Bank has liquidity risk management policies and procedures for the identification, assessment and monitoring of this type of risk.

Furthermore, the application of extreme scenarios and liquidity risk sensitivity tests are also established in the *"Policies and Procedures for Liquidity Risk Management."*

d) Asset & Liability Management (ALM)

The Asset & Liability Management (ALM) analysis provides an overall view of the risks to which the Bank is exposed by measuring them on the basis of Capital Economic Value.

The ALM analysis determines how the balance sheet risk factors can be stressed and how to analyze scenarios related to changes in portfolio composition, funding strategies, liquidity and interest rate levels in order to assess the effects on the Bank's solvency and the strength of its economic capital. As an international best practice, The Basil Committee recommends performing stress tests that include extremes and systematic scenarios in order to measure their effect on balance sheet risk.

Methodologies, Policies and Procedures and Systems or Applications

i) **Risk management methodology for balance sheet interest rate risk and liquidity risk.** This methodology documents the models that make it possible to measure the potential loss in the Capital Economic Value through the VaR of the Capital Economic Value, with a time horizon of one month, a range of 250 observations and a confidence level of 99%, and the impact on the financial margin of changes in the interest rates and the composition of the grading of the portfolio. Besides, it allows to know the impact of asset and liability positions at different terms by different measures of liquidity and market risk, which analysis should be conducted jointly.

Through calculation procedures that have been developed for implementation of the ALM analysis, it makes possible to determine the Bank's Capital Economic Value and its financial margin and to identify the risk factors affecting both these parameters. The economic value is adjusted by credit risk since it considers the expected loss of the portfolio over its entire term, as well as the effect of derivatives and held-for-trading securities.

The ALM analysis is also a useful tool for measuring the impact of the Bank's balance sheet operating strategy and optimizing the Bank's use of capital, as well as maximizing the Bank's risk-adjusted returns.

The analysis is carried out by monitoring the risk of all of the Bank's balance sheet transactions, including the loan portfolio, funding and hedges. The ALM analysis makes it possible to quantify, through the use of various simulation techniques and tools, borrower payment behavior (credit risk) and the added value achieved from the Bank's business strategies (for example, changes in its funding structure and hedging strategy with derivatives).

The results of the model are evaluated and reported quarterly to the CRMC and the Board of Directors. There is an application that allows to value the assets and liabilities balance positions, according to the parameters and assumptions defined for each position and approved by the Risk Management Committee.

The application consists of modules which homologate and integrate brand metrics to market economic, value of equity, VaR of the Capital Economic Value, DGAP time, and sensitivity and stress scenarios.

Policies for identifying, measuring and monitoring of this risk are documented in the "Policies and procedures for liquidity risk management ".

e) Operational risk

The operational risk management aims to reduce potential loss due to failures or deficiencies in internal controls, to processing and storage failures of the transactions or in the transmission of information, as well of adverse management or judicial decisions, fraud or theft. In addition to considering the operational risk corresponding to new products, start up activities, start up processes or systems prior to their launch or implementation.

There is a tolerance level to operational risk in order to define which instance should be informed of the materialization of the events of operational risk loss. For this purpose, the amount of the loss caused by the individual operational risk events or the sum of the losses caused by the repetition of the same incident is determined.

The operational risk events are recorded in the respective database and are included in the institutional statistics. The occurrence of events that exceed the level of tolerance to operational risk, involves informing the CEO, the Deputy Managing Director (DGA) of Risk Management and the DGA in which the event of loss was reported as well as the personnel indicated in the Policies and Procedures for the Management of Operational Risks, as well as to the Board of Directors, through the operational risk exposure report, in its next session. Risk Management directive requests from the responsible areas more information about the mitigation actions that have been implemented and that are in process, and where appropriate may suggest additional mitigation actions or plans.

In addition, there is a metric within the desired risk profile to track accumulated losses amount in the year resulting from operational risk events.

Methodologies, Policies and Procedures and Systems or Applications

i) **Operational Risk Management Methodologies.** These methodologies are used to estimate the impact of operational contingencies, the amount of potential losses arising from unfavorable judicial or administrative rulings, the desired tolerance levels risk, and tolerance of operational risk profiles, as well as the rating of internal risk ratings, and the classification of vulnerabilities in terms of information security.

   In the case of operational contingencies, a Business Impact Analysis (BIA) is carried out, which allows the Institution to determine the criticality of the subprocesses, in order to define whether they should be considered within of the Banobras Business Continuity Plan, as well as to estimate the qualitative and quantitative impacts of the operational contingencies associated. The subprocesses related to the Interbank Electronic Payment System (SPEI) of the Bank of Mexico must be included. The level of criticality is defined for each subprocess, while the relevance is defined according to the type of impact (financial, regulatory, social / reputational, legal), both based on own experience.

Regarding legal risk, Banobras has a "Legal Affairs Management" application, operated by the Legal Deputy General Department, which, on a quarterly basis, sends the required information to the Operational Risk and Capital Requirements Management for the development and submission of the regulatory report "Global Portfolio of Trials" to the National Banking and Securities Commission. In this database the different legal matters, as well as its monitoring are stored.

In addition, the risk area, in conjunction with the legal risk area, estimates the potential loss associated with possible unfavorable administrative and judicial resolutions according to the operations carried out by Banobras.

Finally, an internal operational risk rating is defined, which is a self-assessment measure that is based on a combination of the operational risk events occurred and the best practices for reporting them.

With regard to the quantification of technological vulnerabilities, the proposal was made to rely on the Common Vulnerability Scoring System (CVSS), which establishes metrics for the communication of characteristics such as criticality, probability of occurrence and impact of vulnerabilities that affect security elements in the information technologies environment.

ii) **Policies and Procedures for managing operational risks:** are approved by the CRMC, and established the framework for the management of such risks in Banobras, also:

- Procedure to identify and monitor risks, as well as their classification based on their frequency and potential economic impact.

- Identification and monitoring of key operational risk indicators (KRI), which are statistics or parameters that measure the exposure and evolution of an identified operational risk, having the ability to alert to possible changes in exposure to it. Through the monitoring of each KRI, the materialization of operational risk events is mitigated and consequently associated losses.

- The Bank carries out, at least annually, internal legal audits, through an independent area to the Legal (DGD) in order to avoid a possible conflict of interest.

Additionally, for operational risk management in Banobras, the following elements are available:

- Structure and information system for recording incidents of operational risk, which considers what is established in Annex 12 A of the General Provisions applicable to Credit Institutions.

- The system is designed so that the Risk Coordinators by Division or the staff in each Deputy General Directorate can register events that involve any type of impact on the operational risk that the Institution is exposed to, whether they have originated any real or estimated losses, or have not generated any losses at all.

f) Non-quantifiable risks

Non-quantifiable risks are those derived from unforeseen events for which a statistical base can not be formed to measure potential losses. These risks are strategic risk, business risk and reputation risk.

To manage these risks, there are models for identification and follow-up.

Methodologies, Policies and Procedures and Systems or Applications

i. **Methodologies for non-quantifiable risk management.** This methodology documents the elements considered for strategic and business risk management. In addition, it incorporates a tracking indicator for reputational risk.

ii. **Policies and procedures for the administration of non-quantifiable risks:** they are approved by the CRMC and establish the framework for the management of this type of risk in Banobras, in addition to the Procedure for the identification, registration, mitigation and monitoring of non-quantifiable risks.

g) Capital requirements

Consistent with the provisions of the Basel Capital Accords and as part of the risk management process, Banobras has implemented the regulatory framework applicable to capitalization in order to promote the solidity and stability of the Institution. To do so, the capital requirement associated with credit, market and operational risks is determined monthly, as indicated.

With regard to the capital requirement for credit risk, the Bank employs Standard Method: referred to in Section Two of Chapter III of the First Title Bis of the general provisions. In the case of the capital requirement associated with the exposure to Operational Risk, the Bank Indicator Method also described in the general provisions.

Methodologies, Policies and Procedures and Systems or Applications

i) Policies and procedures to determine the Bank's capitalization requirements: the policies and procedures for determining the Bank's capitalization requirements are documented, as well as the process for integrating and submitting the respective forms to Banxico.

The ratings provided by the following rating agencies are used to calculate the credit risk requirement: Standard & Poor's, Fitch Ratings, Moody's, Mexico's HR Ratings and Verum. These rating institutions are used for all credit operations, lines of credit, guarantees of timely payment, derivatives and transactions with securities of the Institution, according to the Standard Method. It should be noted that Banobras does not assign public issuance ratings to comparable assets.

The Bank uses compensation mechanisms for derivative transactions when they are carried out with the same counterparty, provided that such compensations are established in the framework agreement.

The results of the capital requirement are reported monthly to CRMC and quarterly to the Board of Directors through the Quarterly Report on exposure to risk assumed by Banobras.

As part of the process for determining capitalization requirements, the Risks area uses a System from which the RC's forms are generated, with their respective validation, which are sent to Banco de México.

h) Money Laundering (ML) Risks and Financing of Terrorism (FT)

The General Provisions (DCG) referred to in Article 115 of the Law on Credit Institutions (LIC) consider that credit institutions use a Risk-Based Approach (RBA) to assess the risks in terms of Money laundry (ML) and Financing to Terrorism (FT) and apply the mitigators to them in order to avoid being used to carry out operations with resources of illicit origin and financing of terrorism.

The EBR includes the risk assessment of the client, which is used to determine the degree of risk in order to add coherence between this model and the EBR.

Methodologies, Policies and Procedures and Systems or Applications

i) **Assessing the client's risk metodology:** This methodology documents the risk assessment model to determine the degree of risk of customers through the following processes: Identification of risk factors, Risk Measurement and Customer classification system.

The degree of risk assigned to each client determines the activation of the actions documented in the Client Identification Policies that are contained in the "Manual of Policies and Procedures for the Prevention of Money Laundering and Terrorist Financing".

QUANTITATIVE INFORMATION[3]

a) Credit risk

The exposed amount of the portfolio that is showed in the following chart, considers the State and Municipalities portfolio, entities, Public Trusts and Decentralized entities of the Federal Government, Productive State Companies, own source of Funding Projects, Companies and Contractors and Counterparty Risk.

Amount in millions of Mexican pesos					
Quarter	**4th 2018**	**3rd 2018**	**2nd 2018**	**1st 2018[5/]**	**4th 2017[3/,4/]**
Amount exposed	$503,565.8	466,537.9	475,481.2	456,353.4	445,928.1
Amount exposed in terms of capital requirement	$19,330.9	18,404.2	18,372.4	18,061.7	17,515.1
Global Consumption Limit	83.1%	79.2%	79%	77.7%	86%

1/ It does not include the exposure of Mexico City due that is part of the Federal Government portfolio (for the third quarter of 2018 aggregates to $22,016.8 millions of Mexican pesos and for the second quarter of 2018 aggregates to $22,259.4 millions of Mexican pesos). Includes counterpart risk, which at the third quarter of 2018, it aggregates to $108,559.1 millions of Mexican pesos ($94,750.2 millions in the last quarter).

2/ The exposure and consumption of limits expressed in terms of capital requirements were approved by the Board of Directors through agreement 132/2017 dated December 05, 2017. It is important to note that as of this month, the consumption of the limit is in terms of the requirement of capital and not in nominal terms.

[3]Otherwise indicated and in accordance with the last paragraph of Article 57 of the General Provisions. Applicable to Credit Institutions, in this section, all references to core capital or net capital correspond to the amount of closure of the third quarter of 2018 (September 2018).

3/ The Integral Risk Management Committee, through agreement 048/2017 of October 24, 2017, approved the redistribution of the specific limits to credit risks.

4/ The Board, through resolution 132/2017, approved the increase in the overall credit risk exposure limit in terms of capital requirement, from MXN 19,888.7 million to MXN 20,375.8 million, effective as of December 6, 2017.

5/ The Board of Directors, through resolution 005/2018, approved the increase in the overall credit risk exposure limit in terms of the capital requirement, from MXN 20,375.8 million to MXN 23,252 million, effective as of March 16, 2018.

Beginning in the fourth quarter of 2017, the monitoring of the credit risk exposure associated with the operations formalized and authorized by the Bank, as well as the definition of the global and specific limits, is carried out in terms of capital requirements[4]. The foregoing, based on the latest modifications authorized by the Board of Directors to the Credit Limits[5], which seek to give a more precise follow-up to capital consumption by Business line and thereby ensure compliance with the desired irrigation profile.

However, the foregoing continues to report the credit exposure in nominal terms and calculates the equivalence of the global limit and specific limits in nominal terms, as indicated in the document "Global limit and specific limits of exposure to credit risk. the limits reported in nominal terms are only indicative, the foregoing, in order to offer the Business areas a reference in the estimation of the placement potential and the monitoring of the exposure.

The average exposure in nominal terms of the third quarter of 2018 to the fourth quarter of 2018 amounts to 507,190 million pesos considering the exposure of Mexico City. If no quarter considers the exposure of Mexico City, due to its Outstanding Portfolio, the average exposure in nominal terms of the third quarter of 2018 to the fourth quarter of 2018 will amount to 485,051.9 million pesos.

In the fourth quarter of 2018, there was an increase in consumption of the global limit in terms of capital requirements of 5% with respect to the third quarter of 2018, standing at 83.1% (79.2% in the previous quarter), likewise, there was an increase in the formalized exposure in nominal terms of 37,027.9 million pesos with respect to the previous quarter, the changes are mainly due to the formalization of simple loans to States, Municipalities and the Fideicomiso Público de Contratación de Financiamientos, sin Estructura, Maestro, Irrevocable y de Administración (FIMEM, for its acronym in Spanish), as well as the granting of guarantees of timely payment with States, simple credits to projects with Source of Own Payment, operations with financial intermediaries, portfolio movements and volatility of the exchange rate.

The average exposure of the fourth quarter of 2017 to the fourth quarter of 2018 aggregates to $497,320.8 millions of Mexican pesos considering the exposure of Mexico City, due that is excluded portfolio, the average exposure of the fourth quarter of 2017 to the fourth quarter of 2018 would be of $474,747 millions of Mexican pesos.

It is worth noting that at the 2018 year-end closing, there was a 10.4% increase in the consumption of the overall limit in terms of capital requirements with respect to the end of 2017, standing at 83.1% (86% in the previous year), due to the granting of unsecured loans to States, Municipalities and FIMEM, as well as guarantees of timely payment with States, unsecured loans to projects with Own Payment Source, operations with Financial Intermediaries, portfolio movements, and exchange rate volatility.

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[4]The calculation of the capital requirement presented in this section of the report is made based on the formalized and authorized exposure and using the criteria defined in the document "Global limit and specific limits of exposure to credit risk". "authorized by the Comprehensive Risk Management Committee and the Board of Directors..

[5]Document called "Global limit and specific limits of exposure to credit risk", authorized by the CRMC and the Board of Directors (Document of Limits).

Credit risk VaR

In order of having an overall perspective of the risk of the market CVaR, the credit value at risk (VaR), which allows estimating the maximum potential loss in the portfolio that the Bank may face because of the portfolio credit quality impairment is determined, on a quarterly investment horizon and a confidence level of 99%.

The credit VaR is a risk measure that is based on a Monte Carlo simulation model which depends on the probability of failure of accredited in the portfolio, the severity of the loss, the amount exposed, grading levels and transition matrices.

The variation in the credit VaR of the credit loan portfolio of the fourth quarter of 2018 versus the fourth quarter of 2017 is 34.85% due to the increase in the portfolio. The evolution of credit VaR and their descriptive statistics for the year 2018 and the last quarter of 2017 are as follows:

Amounts in millions of Mexican pesos	4th quarter. 2018	3rd quarter. 2018	2nd quarter. 2018	1st quarter. 2018	4th quarter. 2017	μ*	σ*
Expected loss	11,576.2	11,097.9	10,783.99	8,164.50	8,231.00	9,970.7	1,643.1
Unexpected loss	7,409.4	7,106.8	6,048.6	6,633.9	5,848.4	6,609.4	667.4
Credit VaR	18,985.6	18,204.8	16,832.6	14,798.4	14,079.4	16,580.1	2,116.5
Net capital a)	52,203.0	50,115.0	50,700.1	49,067.8	48,200.6	50,057.3	1,536.8
VaR/Net capital	36.4%	36.3%	33.2%	30.2%	29.2%	33.1%	3.3%
Preventive reserves	10,226.9	10,233.9	9,981.6	7,241.9	7,289.8	8,994.8	1,581.7
Portfolio balance b)	374,137.7	348,375.3	340,963.2	346,473.9	348,979.6	351,786.0	12,888.6
Credit VaR /Portfolio balance	5.1%	4.9%	4.9%	4.3%	4.0%	4.6%	0.5%
VaR of financial instruments	1.6	1.0	2.7	3.5	0.6	1.9	1.2
VaR of financial instruments/Net capital	0.0031%	0.0020%	0.0054%	0.0071%	0.0013%	0.0%	0.0%

* Metrics corresponding to the last 5 quarters.
a) Considers net capital of a quarter under the Commissions' provisions.
b) Portfolio balance eligible for VaR calculation. As of the third quarter of 2017, the VaR calculation of the investment portfolio considers a quarterly horizon.

With regard to the distribution of the commercial portfolio without Fonadin ($374,137.7 millions of Mexican pesos) by geographic region, as of December 31, 2018, the central region represents 46.7%, the southern region 29.8% and the northern region 23.6%. However, the southern zone presents the lowest diversification with an index of 19.3 vs. 28.5 from the center region. Likewise, during the fourth quarter of 2018, Banobras' credit VaR ratio to the portfolio was 5.1%.

VaR and loan portfolio by geographic region */

	Portfolio balance eligible for VaR calculation						VaR at 99%		
Region	Dec-18	%	Sep-18	%	Dec-17	%	Dec-18	Sep-18	Dec-17
North	$88,254	23.6%	$80,819	23.2%	$86,970	24.9%	5,099	5,285	3,726
Central	$174,539	46.7%	$161,145	46.3%	$157,380	45.10%	9,536	9,134	7,332
South	$111,345	29.8%	$106,411	30.5%	$104,629	30.0%	10,272	9,821	7,787
	$374,138	100.0%	$348,375	100.0%	$348,980	100.00%	$18,986	$18,205	$14,079

* The figures are presented in millions of Mexican pesos. Sums and some figures may vary due to rounding effects.

As of December 31, 2018, according to the VaR sensitivity tests performed under different extreme scenarios, the Bank's net capital covers the simulated losses, including the extreme ones.

Diversification of the loan portfolio

The top five borrowers, without considering the excluded portfolio, maintain a balance of $83,462.7 millions of Mexican pesos (22.3% of the total portfolio subject to credit risk of Banobras, not including former employees and Fonadin), representing 1.6 times the net capital.

At the end of 2018, 48 customer of a total of 530 concentrate 78.9% of the balance of the commercial loan portfolio, this is equivalent to 5.5 times Banobras net capital. While for the same period of last year, there were 48 customer of a total of 623 concentrating 77.8% of the balance of the commercial loan portfolio, this is equivalent to 5.6 times Banobras net capital.

No accredited exceeds the concentration limits of the Commission. Also, the three major accredited subject to concentration limits do not exceed 100% of the basic capital of the Bank and none of the accredited subject to the limit of 100% of the basic capital exceeds the threshold.

Credit risk of the portfolio

The commercial loan portfolio of the Bank to December 31, 2018, amounted $458,303 millions of Mexican pesos, 44.2% were credit provided by State Governments and Municipalities and their bodies; 31.8% to commercial loans and, 5.0% to financial entities. This represents a change of 6.1% against reported on December 2017, which amounted $413,966 millions of Mexican pesos.

Characteristics of the credit portfolio by risk group

Concept	Balance Dec 18	Balance Dec 17	Variation	Reserve Dec 18	Reserve Dec 17	Variation	VaR Dec 18
State or municipal governments	**202,465.7**	**183,516.2**	**18,949.5**	**1,621.8**	**1,833.4**	**-211.6**	**8,693**
Current	202,465.7	183,516.2	18,949.5	1,621.8	1,833.4	-211.6	
Past-due	0.0	0.0	0.0	0.0	0.0	0.0	
Troubled	34.8	17.0	17.8	5.9	3.7	2.2	
Private	**145,646.8**	**134,752.1**	**10,894.7**	**5,272.6**	**4,672.4**	**600.2**	**12,587**
Current	143,345.8	132,510.2	10,835.6	3,129.7	2,430.6	699.1	
Past-due	2,300.9	2,241.8	59.1	2,142.9	2,241.8	-98.9	
Troubled	5,060.9	5,059.8	1.1	3,543.0	3,295.2	247.8	
Financial Intermediaries	**22,868.0**	**26,738.9**	**-3,870.9**	**212.5**	**216.7**	**-4.2**	**1,714**
Current	22,868.0	26,738.9	-3,870.9	212.5	216.7	-4.2	
Past-due	0.0	0.0	0.0	0.0	0.0	0.0	
Troubled	0.0	0.0	0.0	0.0	0.0	0.0	
Reserved GF Portfolio* at 0.5%	**3,157.3**	**3,972.5**	**-815.2**	**15.9**	**20.0**	**-4.1**	**526**
Total subject to risk	**374,137.7**	**348,979.6**	**25,158.1**	**7,122.8**	**6,742.5**	**380.3**	**18,986**
Excempted GF Portfolio*, inlcudes	**55,713.5**	**54,513.1**	**1,200.4**	**0.0**	**0.0**	**0.0**	
Fonadin	**28,322.2**	**28,329.5**	**-7.4**	**141.6**	**141.6**	**0.0**	
Former employees	**129.9**	**144.2**	**-14.3**	**38.5**	**40.2**	**-1.7**	
Current	79.9	89.5	-9.6	0.8	1.1	-0.3	
Past-due	50.0	54.8	-4.8	37.7	39.1	-1.4	
Troubled	43.4	46.2	-2.7	37.3	38.9	-1.5	
Total	***458,303.3***	***431,966.4***	***26,336.9***	***7,302.9***	***6,924.4***	***378.6***	
Induced credit	**57,427.4**	**98,498.4**	***-41,070.9***	**325.3**	**580.4**	***-255.1***	
Grand Total	**515,730.8**	**530,464.8**	***-14,734.0***	**7,628.2**	**7,504.7**	***123.5***	

*/ In charge of the Federal Government (GF Trust and State productive Companies).

During the fourth quarter, the average portfolio was $450,517 millions of Mexican pesos, while the average of reserves was $7,361 millions of Mexican pesos.

Portfolio	Average balance December, 2018		Average reserves December, 2018	
State or municipal governments or backed by them	$	179,692	$	1,469
Banks' own funding		134,435		3,215
To Government Entities/ to Federal Government or backed by them		68,301		132
Contingent loans: Other		21,735		139
Second-tier commercial bank loans		20,445		202
Deconcentrated or decentralized entities		7,734		100
Loans granted as a Federal Government Agent		13,586		-
Commercial loans: Medium sized entities		3,195		2,061
Contingent credits: Guarantees		1,262		5
Mortgage loans *		122		31
Consumer loans*		9		9
Total:	**$**	**450,517**	**$**	**7,361**

Amounts in millions of Mexican pesos.
*/ It correspond to the portfolio of former employees.

According to the distribution of the remaining term of the portfolio, 55.8% expires in a term between 10 and 20 years.

Distribution of the remaining term of the portfolio
(Balances at December 2018 in millions of Mexican pesos)

	Remaining term in months							
Portfolio	**[0 - 3]**	**(3 - 6]**	**(6 - 12]**	**(12 - 60]**	**(60 - 120]**	**(120 - 240]**	**> 240**	**Total**
State or municipal governments or backed by them	16	2	58	1,438	7,799	95,848	81,434	186,595
Deconcentrated or decentralized entities	80	5	31	85	3,341	4,161	-	7,703
Banks' own funding	-	-	497	6,526	20,383	93,264	15,641	136,311
Commercial loans: Corporate	-	-	-	-	-	-	-	-
Commercial loans: Medium sized companies	2,168	-	867	-	-	-	-	3,036
Contingent loans	16,803	-	-	-	-	-	-	16,803
Contingent loans / Guarantees	1,226	-	-	-	-	-	-	1,226
Second-tier commercial bank loans	-	-	-	304	1,015	21,548	-	22,868
To Government Entities/ to Federal Government or backed by them	-	-	128	27,317	5,832	35,586	1,201	70,063
Bank: agent	-	-	-	32	-	5,260	8,276	13,568
Consumer loans	9	-	-	-	-	-	-	9
Mortgage loans	32	1	2	25	33	27	-	121
Totals:	20,334	8	1,583	35,727	38,405	255,694	106,552	458,303
Proportion of the term against the total	4.4%	0.0%	0.3%	7.8%	8.4%	55.8%	23.2%	100.0%

* Sums and some figures may not add up due to rounding.

The distribution of reserves by level of risk is shown in the following table:

Comparison of the distribution of the reserves by risk level

(millions of Mexican pesos)

Risk level	Reserves				
	Dic-18	**%**	**Dec-17**	**%**	**Δ**
A-1	1,500.6	20.5	1,317.3	19.0	***183.3***
A-2	263.0	3.6	528.6	7.6	***-265.6***
B-1	317.1	4.3	253.9	3.7	***63.2***
B-2	37.7	0.5	19.0	0.3	***18.7***
B-3	540.2	7.4	812.4	11.7	***-272.2***
C-1	733.4	10.0	631.6	9.1	***101.8***
C-2	324.6	4.4	23.7	0.3	***300.9***
D	217.7	3.0	972.1	14.0	***-754.4***
E	3,368.5	46.1	2,365.7	34.2	***1,002.8***
Total	**7,302.91**	**100.0**	**6,924.36**	**100.0**	***378.6***

*Sums and some figures may vary due to rounding. Includes former employees.

The commercial non-performing loan portfolio totaled $2,300.9 millions of Mexican pesos and represents 0.5% of the Bank's total portfolio, as well as 0.6% of the reserved portfolio. During the last quarter of 2018, past due portfolio decreased $125.6 millions of Mexican pesos. The commercial past-due loan portfolio at the end of 2017 amounted to $2,241.8 millions of Mexican pesos and represented 0.5% of the bank's total portfolio, as well as 0.6% of the reserved portfolio. Comparing the non-performing portfolio in the fourth quarter of 2018 compared to the fourth quarter of 2017 shows that this increased 2.6%. Taking into account the portfolio of former employees, at the end of the fourth quarter of 2018, the past due loan portfolio was $2,351.0 millions of Mexican pesos. Regarding the time that loans remain in the past due portfolio, the historical average 2000-2017 is 16.5 months, while when measured as a proportion of the time in the portfolio, it is 39.1%.

Commercial, consumer and mortgage loans with risk "D" and "E" are identified as troubled portfolio. At the end of December 2018, it totaled $5,139.1 millions of Mexican pesos. This had an increase of $16.2 millions of Mexican pesos compared to the end of the previous year.

It can be seen that the distribution of overdue loans by geographic region is concentrated in the southern region with a ratio of 79.5% over the total overdue portfolio.

Loan portfolio by geographic region: current and past due */
Amount at December 2018 in millions of Mexican pesos

Region	Balance Total	Current			Past-due			Troubled			Current/ Past-due
		Balance	Reserve	Balance /Reserve	Balance	Reserve	Reserve /Balance	Balance	Reserve	Reserve /Balance	
Center	$258,686	$258,211	$2,467	1.0	$475	$306	64.4	$689	$526	76.3%	0.2
North	$88,264	$88,256	$651	0.7	$8	$7	91.6	$243	$94	38.7%	0.01
South	$111,354	$109,486	$2,004	1.8	$1,868	$1,868	100.0	$4,207	$2,967	70.5%	1.7
	$458,303	$455,952	$5,122	1.1	$2,351	$2,181	92.8	$5,139	$3,586	69.8%	0.5

* Sums and some figures may not add up due to rounding
Amounts in millions of Mexican pesos.

The states with the most significant amounts of troubled and past due portfolio for both 2017 and 2018.

Troubled portfolio by State excluding former employees
(Amounts in millions of Mexican pesos)

State	December 2018 Balance	Past-due	Reserve	December 17 Balance	Past-due	Reserve
Oaxaca	2,261.2	0.0	1,023.3	2,349.4	0.0	884.9
Veracruz	1,861.4	1,861.4	1,861.4	1,862.5	1,862.5	1,862.5
México city	535.9	315.9	377.9	405.7	255.7	294.1
Nuevo León	203.3	0.0	81.4	232.1	0.0	43.8
México	123.3	123.3	123.3	123.3	123.3	123.3
Other	110.7	0.4	81.7	103.7	0.4	90.5
Total	**5,095.7**	**2,300.9**	**3,548.9**	**5,076.7**	**2,241.8**	**3,299.0**

By 2017, the total number of States with a troubled portfolio was 9, while in 2018 it was 10. The States whose past-due portfolio exceed 35% of their balance are shown*.

Past-due* portfolio by State excluding former employees

State	Dec 18 Balance	Reserves	Dec 17 Balance	Reserves
Veracruz	1,861.4	1,861.4	1,862.5	1,862.5
Other (3)	439.5	281.5	379.3	379.3
Total	**2,300.9**	**2,142.9**	**2,241.8**	**2,241.8**

During the fourth quarter, credit recoveries that were in the past due portfolio for an amount of $227.1 million of Mexican pesos were performed, 99.1% of this recovery occurred in the portfolio of private sector entities and there were no written off credits.

Changes in balances and reserves of troubled loans presented in their original currency allow the isolation of the exchange rate effect from the variation in the risk level of this portfolio.

Portfolio	December 2018 Opening balance	Balance	Reserves	December 2017 Opening balance	Balance	Reserve
Mexican pesos	8,297.7	2,946.5	1,557.8	8,272.1	3,063.8	1,397.7
U.S. Dollars	113.8	109.4	101.3	99.4	94.7	94.7
Euros	0.0	0.0	0.0	19.9	6.4	1.6

Main proprietary financing

At December 31, 2018, the maximum amount of financing by the three principal creditors subject to 100% of the basic capital amounted to $52,645.2 millions of Mexican pesos, which represented 1.0 times of the basic capital of the Bank. When considering only the credits subject to the concentration limit, as of December 31, 2018, the maximum amount of financing by the three principal creditors whose sum must not exceed 100% of the basic capital increased to $26,130.9 millions of Mexican pesos which represents 49.5% of it.

The Institution has granted 23 loans for $285,934.5 millions of Mexican pesos pesos that exceed 10% of the basic capital and which represent 5.4 times the basic capital of the Bank.

Main financing subject to the limits of common risk diversification

As of December 31, 2018, the Institution maintains 5 financing subject to the concentration limit that exceed 10% of the basic capital, which amounts to $37,531.2 millions of Mexican pesos and represent 0.71 times the basic capital. In addition, in no case any creditors subject to the concentration limit of 100% of the basic capital have exceeded this limit.

In the fourth quarter of 2018, Banobras had 12 economic groups and three trusts with 40 companies that represented common risk due to equity links, which in aggregate constituted a concentration equal to 103.5% of the basic capital.

Investment in Securities

Investments in securities, other than government securities, involving credit risk and that at the end of December 2018 represented more than 5% of net capital of Banobras, are shown below:

Issuer	Nominal value (million of pesos)	% Regarding Net Capital
SCOTIABANK	$5,973	10.64%
CFE	$5,582	9.94%
PEMEX	$3,736	6.65%
INBURSA	$2,981	5.31%

Net capital considered is of $56,141 millions of Mexican pesos.

Borrowing limits are assigned to the financial intermediaries based on the financial information and, controls and online systems are established to limit counterparty credit risk. At the close of December 2018, the Institution has a stock market position that suffered a two-notch maximum rating downgrade, equal to 0.4% of total investments in securities. The rest of the instruments in position have not presented an impairment in the credit rating.

b) Risk market

In the Bank the market risk value (VaR) is performed by applying the methodology of conditional VaR (CVaR), with a time horizon of one business day, a 500 data window and a theoretical confidence level of 97%.

The calculation of the CVaR are obtained for each one of the operating desks (Money Market, Exchange Desk and Derivative Desk), which consolidate the position of Banobras.

In the following table, the CVaR of Banobras is shown, by operation desk, of quarter closing and average of the period, as well as the percentage that represents of the Net Capital:

Portfolio	4th quarter of 2018					3rd quarter of 2018				
	Dec 18	% of N.C	Average	% of N.C	σ	Sep 18	% of N.C	Average	% of N.C	σ
Banobras	197.46	0.37%	235.99	0.45%	36.20	275.79	0.54%	271.00	0.53%	8.07
Money market	128.90	0.24%	151.76	0.29%	26.78	177.12	0.34%	161.37	0.32%	8.86
Changing table	18.95	0.04%	15.82	0.03%	1.52	17.27	0.03%	17.89	0.04%	1.38
Trading Derivatives	5.94	0.01%	8.51	0.02%	1.27	9.28	0.02%	8.96	0.02%	0.99
Trading Derivatives. Estr	134.92	0.25%	159.57	0.31%	18.73	181.53	0.35%	185.14	0.36%	4.55
Reclassification trading derivatives	7.44	0.01%	1.21	0.00%	2.63	0.00	0.00%	2.05	0.00%	4.33

Compared to the same quarter of 2017, CVaR estimates are shown below:

Portafolio	4th quarter of 2018					4rd quarter of 2017				
	Dec 18	% of N.C	Average.	% of N.C	σ	Dec 17	% of N.C	Average	% of N.C	σ
Banobras	197.46	0.37%	235.99	0.45%	36.20	112.81	0.23%	153.03	0.32%	71.12
Money market	128.90	0.24%	151.76	0.29%	26.78	92.24	0.18%	88.27	0.18%	27.47
Changing table	18.95	0.04%	15.82	0.03%	1.52	15.33	0.03%	13.08	0.03%	1.91
Trading Derivatives	5.94	0.01%	8.51	0.02%	1.27	8.34	0.02%	8.9	0.02%	0.99
Trading Derivatives. Estr	134.92	0.25%	159.57	0.31%	18.73	114.21	0.23%	156.35	0.33%	50.9
Reclassification trading derivatives. Rec.	7.44	0.01%	1.21	0.00%	2.63	0	0.00%	1.06	0.00%	1.26

Derivative Financial Instruments

Prior to the recording of any contract of derivatives hedging, the Risk Management Deputy Department evaluates the effectiveness of derivatives to cover the risk of the underlying positions, and prior to the conclusion of any trading contract of derivatives, the market risk is estimated to monitor the corresponding limit consumption limit and validate, in addition, the counterparty risk of the transaction.

The monitoring of the effectiveness of derivatives hedging is reported monthly to the Finance Deputy Direction and quarterly to the Board and the Comprehensive Risk Management Committee performing for this, the corresponding efficiency analysis, where It is considered that hedging is acceptable when the efficiency ratio is at a predefined interval (between 0.80 and 1.25).

For negotiation derivatives, the calculation of CVaR is performed, which is reported and monitored. Valuation techniques established for existing instruments correspond to generally accepted models, which are approved by the CRMC.

The liquidity gap calculation includes the asset flows, funding and derivative instruments covering the previous positions, among other parameters.

Credit risk of financial instruments, including derivatives.

At the end of Q4 2018, an increase in the amount exposed with Financial and Non-Financial Counterparties was observed for 13,808.9 million pesos with respect to the closing of Q3 2018. The increase in exposure was mainly due to the formalization of the Global Revolving Credit Line under the Promotion of Infrastructure Financing Product through Commercial Banking for 7,000 million pesos, as well as the increases in Financial Counterparts for 5,621.8 million pesos in the operation of the Treasury Investment Portfolio for 1,187.1 million pesos.

Counterpaty credit exposures as of December 31, 2018	Specific Limits		
	Maximum exposure December 2018 (A)	**Exposure at the end of December 2018 (B)**	**Change against prior quarter [(A)/(B)%]**
Non-financial counterparty	7,374.3	7,966	-7.4%
Financial counterparty	79,831.5	66,618.0	19.8%
National Banks	61,244.1	56,476.7	8.4%
Foreign Banks	18,587.4	10,141.2	83.3%
Treasury investment portfolio	21,353.3	20,166.2	5.9%
Brokerage Houses	-	-	NA
Total	**108,559.1**	**94,750.2**	**14.6%**

At the close of the fourth quarter of 2018, an increase in the amount exposed with Counterparties for $18,857.3 millions of Mexican pesos was observed compared to the fourth quarter of 2017 and the consumption of the specific limit went from 63.7% to 59.4%. The increase in exposure was mainly due to the Formalization of Revolving Credit Global Lines under the Promotion Product for Infrastructure Financing through Commercial Banking for $7,000 million pesos, as well as the increases in Financial Counterparts for $15,463.8 million of pesos, in the operation of the Treasury Investment Portfolio for $1,187.1 million pesos.

Counterpaty credit exposures as of December 31, 2018	Specific Limits		
	Maximum exposure December 2018 (A)	**Exposure at the end of December 2017 (B)**	**Change against prior quarter [(A)/(B)%]**
Non-financial counterparty	7,374.3	7,549.4	-2.3%
Financial counterparty	79,831.5	60,799.1	31.3%
National Banks	61,244.1	45,661.4	34.1%
Foreign Banks	18,587.4	15,137.8	22.8%
Treasury investment portfolio	21,353.3	6,378.1	234.8%
Brokerage Houses	-	-	NA
Total	**108,559.1**	**74,726.7**	**45.3%**

Amounts in million of mexican pesos.

For December 31, 2018, the CVA calculation shows a total exposure to credit risk of $173.76 millions of Mexican pesos, which comes mainly from non-financial counterparties.

CVA (pesos)	December 2018				September 2018			
	Derivatives	Mdo Din	PIDV	PICV	Derivatives	Mdo Din	PIDV	PICV
Financial Counterparties	1.51	0.16	0.05	0.61	1.63	0.17	0.05	0.73
Non-Financial Counterparties	1.53	32.35	136.94	0.60	1.08	35.62	91.59	0.81

CVA (pesos)	December 2018				December 2017	
	Derivatives	Mdo Din	PIDV	PICV	Derivatives	Mdo Din
Financial Counterparties	1.51	0.16	0.05	0.61	1.65	0.03
Non-Financial Counterparties	1.53	32.35	136.94	0.60	3.86	1.08

The calculation was updated according to both national (N) and international (I) matrices.
Amounts in million of mexican pesos.

At the end of December, collateral received by cash financial instruments decreased by 46.42% with respect to the previous quarter.

It is estimated that the impact on the amount of collateral that the Institution would have to provide should its credit rating decrease in a notch is $0.91 million pesos, due to the risk factors that affect the preventive VaR of the position of derivatives, the conditions of the guarantee contracts and the level of the total funding cost, which are the parameters used in the calculation of the cost of variations in the calls of margin by rating. At the end of the quarter, the portfolio of derivative instruments of the Institution was comprised of 70.28% in hedging transactions and 29.72% in trading transactions.

The evaluation of the credit quality of the counterparties, prior to performing the operations, is considered in the Market Risk Policies and Procedures, which include the operating framework for money desks. This establishes that Banobras can operate with government securities, securities issued by the development bank, securities issued by private banks with a AAA credit rating on a local scale, productive state companies, and securities issued by other counterparties that meet certain conditions and that are held-to-maturity.

At the end of December 2018, the conditions of the Operating Framework for fixed rate and variable rate positions as well as the established limits of the position, except for 0.4% of the total amount of investment in securities, which received a maximum two-notch decrease.

In addition, there is a Methodology to determine the Maximum Borrowing Limit of Intermediaries (MBLINT), which is a limit that sets the level of borrowing of these in credit operations, as well as the credit risk of the counterparty in financial transactions, including derivatives. This methodology applies, among other types of intermediaries, to National and Foreign Banks and considers information on its Financial Statements and the rating assigned to the financial intermediary (considering the global scale rating with a higher degree of risk assigned to it by rating agencies Recognized by the CNBV or obtained with the CAMELS Methodology). The maximum limit depends on the capital of Banobras, or a percentage of the capital of the same intermediary.

Administration of derivatives collaterals

Currently, Banobras has current derivative operations portfolios with 49 counterparties. Of the mentioned counterparties, 16 have a contract that allows the operation of collateral; all of which are financial counterparties.

c) Liquidity risk

The management of liquidity risk allows the identification of the concentration risks of funding to which Banobras is exposed. Funding operations with maturities greater than 30 days to December 2018 decreased -16.51% over the previous quarter and decreased-12.39% from 2017.

The potential loss due to early settlement of money market assets decreased -5.81% compared to the third quarter of 2018 compared to the close of the previous year increases by 35.9%.

The projection of cash flows of the risk positions is done based on the implicit market rates and the algebraic sum between the asset and liability positions is performed to know the missing or liquidity surplus. This projection is made on the positions of the loan portfolio, treasury positions, interbank loans and derivative financial instruments.

Applying a stress scenario to interest rates, the repricing gap for up to one month, at the end of December 2018, shows a probable loss of MXN 1.95 million, which is MXN 0.40 million higher than the likely loss projected for September 2018.

d) Asset and Liability Management (ALM)

Banobras presents an 8.61% increase in the Economic Value of the Equity[6] in the quarter due primarily, to the rise in the average expected loss of the portfolio, promoted by a significant increase attributed to the granting of new financing. In the year, the Economic Value of the capital increased 10.30%, mainly due to the increase in the positions in the Balance Sheet and the update of the transition matrices that are used as an input for the calculation. During the year, the Mexican Central Bank increased the reference rate to 8.25% considering the magnitude of the minimum wage increases. At the end of December, the Shareholders' Capital presented an increase of 7.63% with respect to September 2018 and of 14.55% with respect to the closing of the previous year.

It is important to emphasize that the credit portfolio, timely payment guarantees (TPG), as well as the structure of funding and risk mitigation through OTC derivatives, are the ones that have the greatest impact within the financial margin and balance sheet risk of Banobras. Specifically, the OTC derivatives include the Extinguishing Cross Currency Swap, which has a contingency associated with its extinction clause, which is currently recognized at the accounting level and valued through a methodology approved by CRMC.

Based on the Methodology of risk management of interest rates of the balance sheet and liquidity risk, at the end of December 2018 the Economic Value of Capital was calculated with respect to shareholders' equity, which decreased 1.60% with respect to September 2018 and 6.88% compared to December 2017.

The Economic Value of Equity considers an adjustment for credit risk given the expected loss of the economic value of the portfolio, derivatives, and trading securities that this quarter represented 10.39% with respect to the economic value of the capital; that is, it decreased 0.68% in the quarter and increased 2.20% compared to December 2017. The increase in the expected loss is explained primarily by the growth of the portfolio, offset by an improved risk profile. The expected loss of the economic value of the portfolio with respect to its economic value, ie, PEc / VEc represents 2.20%, compared to 2.36% in the previous quarter and 1.71% in the previous year. This expected loss considers the estimation of credit risk in each of the flows to be received from the portfolio at present value.

In order to know the sensitivity of the balance sheet to movements in interest rates, an unfavorable movement of 30% in interest rates was simulated, with a potential loss in the Economic Value of Capital of 3.92%, that´s to say, 0.50% less than the previous quarter and 0.30% less than the previous year. This indicates that, given the balance of the mentioned date, an unfavorable movement of 30% in the level of rates would generate a loss of 3.92% with respect to the future receivable and delivered flows brought to present value. Likewise, the sensitivity of the financial margin, which measures the variation in the present value of interest income, estimates that a change of the same magnitude in interest rates generates a capital surplus of 28.02%, compared with 27.35% observed in September 2018 and 27.71% observed at the end of last year.

The risk for each peso gained, that´s to say, the ratio of Economic Value and Value at Risk (VaR/VE) was 1.52% and was lower than 2.20% in September 2018 and 1.40% in December 2017, due to the presidential elections in the United States that caused a considerable decrease in the volatility of the main risk factors. The VaR of the Economic Value of Capital is calculated using the historical VaR method with a time horizon of 1 month and a confidence level of 99%.

[6] The economic value of capital is the intrinsic value of the balance sheet positions, including credit risk. That is, the market values of the balance sheet positions.

The DGAP duration at the end of December 2018 was 0.14 years, lower than the duration calculated in September 2018 of 0.17 years and the one calculated in December 2017 for 0.26 years. The decrease observed in the year is explained by changes in the composition of the balance sheet. During the quarter, the recomposition of the portfolio and investments in securities favors the reduction of the DGAP on the balance sheet. The positive sign the DGAP, indicates that the Economic Value of Banobras Capital is sensitive to increases in interest rates.

Descriptive statistics of the main metrics of exposure to credit and market risks are as follows:

	2018	2017				Stadistics	
	Dec 18	Sep-18	Jun-18	Mar-18	Dec 17	Average	Standard deviation
VaR / Capital VE	1.52%	2.20%	3.22%	1.45%	1.40%	**1.96%**	**0.78%**
Sensitivity in the VE of the Capital at 30%	-3.92%	-4.42%	-4.26%	-4.90%	-4.22%	**-4.34%**	**0.36%**
Sensitivity in the VE of the Financial Margin at 30%	28.02%	27.35%	30.68%	27.41%	27.71%	**28.23%**	**1.39%**
PE/Capital VE	10.39%	11.07%	11.28%	8.08%	8.19%	**9.80%**	**1.56%**
PE_c/VE_c	2.20%	2.37%	2.41%	1.72%	1.71%	**2.08%**	**0.34%**
DGAP (years)	0.14	0.17	0.19	0.30	0.26	**0.21**	**0.07**

VaR: Value at Risk of the Capital economic value
PE: Expected loss of the Capital Economic Value
VE_C: Portfolio Economic Value
VE: Capital Economic Value
PE_C: Expected loss of the Portfolio Economic Value
DGAP: Duration gap in years

e) Operational risk

During the fourth quarter of 2018, there were 8 events of operational risk, of which four generated an accounting effect and one of these exceeded the level of tolerance to operational risk.

Regarding the estimated impact that would generate the materialization of the identified operational risks, it would result in an expected loss of $20.03 million pesos.

Concept	Dec 17	Sep 18	Dec 18
Capital requirement	1,423.9	1,633.9	1,708.5
Number of times the expected loss is covered	34.4	79.9	85.3

* Amounts in million of Mexican pesos

f) Capital requirements

The amount of the exposures corresponds to the one shown in the Credit Risk section since Banobras calculates the requirement of credit risk capital under the Standard Method.

For the calculation of the capital requirement, the eligible financial security rights are the following:

Concept	Dec 17	Sep-18	Dec 18
Cash and cash equivalents[7]	104.0	-	-
Zero Coupon Bonus	13,308.6	13,668.4	12,934.5
Total	13,412.6	13,668.4	12,934.5

* Amounts in million of Mexican pesos

[7] That correspond to a single creditor in current portfolio classified in the Private category.

The following table presents the positive fair value, netting benefit, current exposure and future potential by type of counterparty according to the standard method for the capital requirement.

Concept	December 17			September 18			December 18		
	Financial	Non Financial	Total	Financial	Non Financial	Total	Financial	Non Financial	Total
positive fair value	298,029.3	75,147.9	373,177.1	21,278.6	752.1	22,030.7	21,278.6	752.1	22,030.7
netting benefit	283,941.3	73,414.4	357,355.7	7,226.4	79.4	7,305.8	7,226.4	79.4	7,305.8
Real Guarantees Held (Cash / Securities)	5,068.3	-	5,068.3	5,625.2	-	5,625.2	5,625.2	-	5,625.2
Current exposition	14,088.0	1,733.4	15,821.4	14,052.2	672.7	14,724.9	14,052.2	672.7	14,724.9
Potential Future Exhibition	268.0	27.9	295.9	136.1	9.1	145.2	136.1	9.1	145.2

* Amounts in million of Mexican pesos

Information for stock positions

The reason for the position in Banobras shares is as permanent investments from which no capital gains are expected. The amount is recognized in the Basic Capital since they have public price and no amount.

Concept	December 17		September 18		December 18	
	Balance	Capital requirement	Balance	Capital requirement	Balance	Capital requierement
Share investments (weighted at 100 percent)						
Shares of companies of complementary or auxiliary services in their administration referred to in article 88 of the Law of Credit Institutions	0.300	0.024	0.300	0.024	0.300	0.024
Share investments in companies of article 75 of the Law of Credit Institutions, classified in:						
Group X (weighted at 1,250%)						
Of fractions I and II, unlisted, as well as quoted and unlisted of fraction III, whose holding does not derive from debt or payment capitalization	-	-	-	-	-	-
Companies called "risk capital"[8]	35.705	10.794	35.705	10.794	35.705	10.794

* Amounts in million of Mexican pesos

Information in relation to exposures in securitizations

a) Qualitative information:

1. The type of risk assumed by the Institution is made up of high credit quality paper, which must comply with the current Operating Framework (investment regime) and a minimum profitability requirement. As part of monitoring its positions, Banobras monitors a series of market, liquidity and counterparty metrics on a daily basis, in order to reduce the risk assumed by the Institution, minimizing exposure to possible defaults by the issuer.

[8] The investments made by the Development Bank according to its organic laws, in companies denominated as "risk capital", considers the following treatment: according to established in the Provisions, 50% of the value of the investment in the capital is decreased basic and the other 50% of the value of the investment is applied a capital requirement of 22.23% for general market risk and 8% for specific risk.

a. In the liquidity risk associated with the securities in position, the possible loss by early liquidation of said positions is monitored daily by means of indicators.

b. The processes implemented in the Institution to monitor the changes in the credit and market risks of the exposures in securities related to a securitization comprise various risk metrics that include daily monitoring and periodic disclosure. In terms of the market, the CVaR is calculated, as well as stress and sensitivity scenarios. In terms of credit risk, depending on the business line, there are counterpart limits and specific limits, which are monitored and reported on a daily, monthly and quarterly basis.

2. The Bank carries out investor activities in the purchase of paper related to certain securitizations, in accordance with the Operating Framework approved by the Risk Management Committee (CAIR) and with the considerations issued by the Finance and Assets and Liabilities Management Committee (COFIGAP, acronym in Spanish).

3. The Bank acquired market securities related to a securitization during the last quarter of 2018 as part of its investment strategy.

4. The Rating Agents used to assign the weighting to determine the capital requirement for credit risk in securitization positions are: Standard & Poor's, Fitch Ratings and Moody's.

5. The Bank has the practice of using hedging strategies through derivative financial instruments.

6. The Bank has not carried out its own securitizations or through trusts.

7. The Bank does not participate as a sponsor of securitizations.

8. The Bank carries out the accounting records in accordance with current regulations.

b) Quantitative information:

1. The Bank does not have its own securitized products**.**
2. Amount added as follows:

i. The securitization positions acquired disaggregated by risk weight bands.

Band	Value Type	Amount (millons of MXN)	Weighting by market risk (%)
11	95	2,589.7	13.9
12	90	1,637.7	13.4
12	95	1,357.5	13.4
10	D2	89.5	5.5
11	D2	313.6	7.4
12	D2	1,061.1	9.6
	Total	**7,049.1**	

3. Amount added as follows:

   i. Capital requirements for securitized exposures broken down by default risk:

Type Value	Amount (millons of MXN) [a]	weighted (%) [b]	Capital Requirement (millons of MXN) [c] = [a] * [b]/100 * 8%
90	1,637.7	20	26.2
95	3,947.2		63.2
D2	1,464.2	100	117.1
Total	**7,049.1**		**206.5**

   ii. No securitized exposures are deducted from the capital.

4. There are no capital charges in the case of securitizations subject to early repayment treatment.

5. The Bank does not have exposures in restockings.

POLICY OF CREDIT MANAGEMENT

Granting

- The Institution grants loans to the Federal government, the Mexico City government, to the state and municipal governments, to their respective agencies, state controlled and/or those controlled by municipalities, as well as those public entities susceptible to contract financing in terms of the applicable law and regulations to financial intermediaries, private equity companies and trusts created, as long as the funding are channeled to the development of activities related to infrastructure and public services in accordance with Articles 3º, 6º, 7º and 31 of the Organic Law of the Institution.

Evaluation

- Before entering to the stage of execution, every application for credit or financing is analyzed by the business areas and with the result of the analysis, the Card of Terms and Conditions is performed according to the guidelines established in the Bank's Loan Manual.

- Among the items to be taken into account for credit analysis are: credit operations must not exceed the borrowing limits determined by the Risk area, according to the methodology approved by the CRMC and the interpretation of the results of the consultation to a Credit Information Society (Credit Bureau) on the applicant's credit history, guarantors, surety or joint obligors Joint and several subsidiary obligors and trustees, shareholders who individually own 10%, shareholders that represent at least 75% of the capital stock of the company, in no case credits must be segmented for approval by one or more authorized bodies.

- Based on the credit analysis and the Terms and Conditions Fact Sheet, the Credit Department carries out a Comprehensive Loan Assessment, which establishes the feasibility or not, of the transaction and its risk level.

- The evaluation is done comprehensively, ensuring that prudential aspects concerning credit and fulfillment of each and every one of the requirements established in the Loan Manual for credit operations and credit financing are met in the origin stage, specifically in promotion and evaluation.

Authorization

The approval of credit applications is carried out by the bodies and empowered officials, based on the credit card and its annexes made by the business and project areas, as well as a comprehensive credit assessment prepared by the credit area (no credit is authorized if it does not have the information and minimum documentation established in the institutional credit rules and the rules applicable), taking into account, inter alia, the following:

- Primary source of recovery of credit or financing.

- The solvency of the applicant credit or financing.

- The proposed guarantee scheme that allows the recovery of the resources provided or some mechanism to mitigate the risk associated with financing.

- Exposure to risk for all credit or financing operations by the debtor and its payment experience.

- The possible existence of common risk, in accordance with the established policies and procedures for common risk management and diversification of credit risks and for the analysis and monitoring of the concentration and capital charge by concentration for the Banobras portfolio, established in the Comprehensive Risk Management Manual.

- The results of the sensitivity assessments on the applicant's projected flows to changes in the various risk factors in credit or financing, representing individually or under the concept of common risk, an amount of more than ten percent of BANOBRAS core capital, or equal to or greater than the equivalent in national currency to thirty million UDIs, whichever is lower, and whose term exceeds one year.

- In credit or financing whose source of payment and/or guarantee is from irrevocable resources assigned in trust, the percentage of the identified source of income and/or the amount of resources to put in a trust, must be submitted, regardless of the amount and/or percentage of affected resources for the payment of previous commitments.

- The deadline for loans or financing with own source of payment should be consistent with the maturity of the respective project, concession agreement, contract of services, decree or any other legal instrument related to the project.

- The conclusions and opinions of the Comprehensive Credit Assessment regarding if the operation is or not viable, according to the degree of risk.

Control

- Once the loans are authorized by the empowered authorities, its formalization proceeds through the drafting of contracts by the legal department; the business department sends the support legal instruments from the authorized transactions, properly signed, to the legal department who sends these to the vault and a copy of these are sent to the Control Desk, who verifies that the loans to be granted, were documented in the terms and conditions for that purpose and have been approved by the authorized committees and/or officers of the institution and, if necessary, it releases the resources requested by the borrower and then gives its approval for disbursement.

- When the resources are released, the area of portfolio management, with the approval of disbursements, authorizes them according to the contractually agreed and registration of credit and disbursements in the Portfolio System is made, and the accounting record is performed. Then, monthly, the portfolio is monitored through the granting reports that are sent to the areas of business and operational-accounting reconciliation.

Credit recovery

- Sending statements to borrowers within 10 days of issuance, for recovery.

- The loan portfolio recovery is recorded automatically every day as long as it contains the correct alphanumeric reference of each loan; otherwise it is applied manually, prior identification of deposits.

- Notification to the business areas on late portfolio payments from their borrowers, thus by tracking system as part of the area that manages the portfolio.

- If delays in payment continue and these fall into past-due loan portfolio, the arrangements for the allocation of guarantees of the loan begin, according to the directions of the business areas.

Monitoring credit risk

- Continuous monitoring is given to each of the loan portfolios, cleave unto all relevant information, indicating the status of loans and, where appropriate, of the guarantees to retain the minimum proportion established. In the case of tracking guarantors, the monitoring is given as if it were any other accredited.

- As a result of ongoing monitoring or that the loans have fallen into past-due portfolio and are expected to have recovery problems, are subject of a detailed evaluation in order to timely determine the possibility of establishing new terms and conditions that increase their probability of recovery.

INTERNAL CONTROL SYSTEM

In terms of the general rules and practices for credit institutions, the Bank's Board of Directors, at the behest of the Audit Committee, authorized updates to the objectives of the Internal Control System, as well as the guidelines for its implementation, and the functions and responsibilities assigned to the different areas and internal departments involved in its implementation, application, oversight, and supervision.

All of the Bank's personnel have been informed of the referred objectives and guidelines.

The Bank has the following documents that govern the internal control, which have been duly approved by the respective departments:

a) Code of conduct.

b) Policies for the proper use of human and material resources.

c) Manuals for organizing and operating the Bank’s different business and support areas, specifying the objectives, guidelines, policies, responsibilities, procedures and controls, among other aspects, for documenting, recording and settling the transactions; safeguarding the information and assets.

d) Manual of policies and procedures for the prevention of money laundering and financing of terrorism, in order to detect and prevent operations with resources of illicit origin and financing of terrorism.

Also, to justify the publication of the documents that govern the Bank’s day-to-day business, in 2018 the Bank continued its work on the update documentation of the basic processes based on the Bank’s corporate purpose and corresponding controls. This documentation is focused on ensuring:

- Adequate segregation of functions,
- Clear assignment of responsibilities, and;
- Safeguarding of the Bank’s information and documentation.

The Bank's organizational structure is founded on principles of independence, segregation and delegation of functions and responsibilities, and it is adjusted to satisfy current business and regulatory requirements.

The Bank has a Planning, and Comptrollership Deputy Department that, through the Internal Comptrollership Department, is in charge of coordinating and supervising the financing of the Bank’s Internal Control System, as well as for developing and promoting the design, establishment and updating of the measures and controls related to compliance with internal and external standards and the correct functioning of the Bank’s information processing systems.

In this regard, the implementation of Internal Control Agendas (ICA), among other self-assessment tools continued, which integrate the items that depart from the standards and operating manuals of the processes, and these are regularly evaluated, which allows self-promoting culture.

During 2018, the application of the ICA for the "Fiduciary Support" and “Money Laundering Prevention” and “Derivative Products” were implemented, and the ACI were applied for the “Risk Management” and “Technical Assistance” processes.

The actions aimed at updating the reagents to strengthen the controls also prevailed.

Banobras has established an Audit Committee in which Board members participate, of which at least one must be independent and shall preside it. The committee meets at least quarterly and its operation is governed by a manual approved by the Board of Directors. This committee assists the Board in overseeing the financial statements and the proper functioning of the Internal Control.

The Bank also has an independent Internal Audit area that reports to the Audit Committee, whose head is appointed by the Governing Council on a proposal from the Audit Committee.

All functions and responsibilities associated with the Bank’s internal Comptrollership and Internal Audit Area are evaluated by the Audit Committee.

With the purpose of establishing actions to ensure the integrity and ethical behavior of civil servants in performing their functions or commissions, an Audit Committee was established. The functions of this body include, among others, the following:

- Participate in drafting and releasing a Code of Conduct and assist in the application of and compliance with such document.

- Act as a specialized body for providing consultations and advice on matters related to the application and compliance with the Code of Conduct.

34. Regulatory pronouncements issued recently

- **Changes in the Provisions of the CNBV**

On December 27, 2017, various amendments to the Accounting Criteria *A-2 “Application of specific rules,”* B-6, “Loan portfolio” and D-2 “Income Statement.” The amendments to criteria B-6 and D-2 became effective on January 1, 2019, while amendments to criterion A-2 regarding the adoption of various Financial Reporting Standards (FRS), will become effective on January 1, 2020, based on the update of said modifications published on November 15, 2018.

The Administration of the Institution is analyzing the effect that these modifications will have on the financial information. The most relevant changes are mentioned below:

Accounting criteria A-2 "Application of particular rules"

Certain Financial Reporting Standards issued by the Mexican Council of Financial Information Standards, AC (CINIF), are incorporated in order to be applicable to credit institutions at the time of determining the term for their application, in order that these financial entities are able to meet them. These NIFs are the following: B-17 "Determination of fair value", C-3 "Accounts receivable", C-9 "Provisions, contingencies and commitments", C-16 "Impairment of financial instruments receivable", C- 19 "Financial instruments payable", C-20 "Financial instruments to collect principal and interest", D-1 "Revenue from contracts with customers", D-2 "Costs from contracts with customers" and D-5 "Lease".

It should be noted that FRS C-2 "Investment in Financial Instruments" and C-10 "Derivative financial instruments and hedging relationships" will be applicable to credit institutions, once the specific criteria B-2 are repealed. Investments in securities and B-5. Derivatives and hedging transactions issued by the CNBV, in force to date.

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

The accounting criteria are adjusted so that credit institutions can cancel surpluses in the balance of the preventive provisions for credit risks, in the period in which they occur, while also recognizing the recovery of loans previously written off against the "Preventive provision for credit risks" line item in the income statement. These amendments became effective on January 1, 2019.

- **Recently issued financial reporting standards by CINIF**

The CINIF has issued the FRS and Improvements listed below:

FRS B-17 "Determination of fair value". FRS B-17 is effective for years beginning on or after January 1, 2018 (January 1, 2020 for credit institutions) and is applicable retrospectively. Where appropriate, changes in valuation or disclosure must be recognized prospectively This establishes the valuation and disclosure standards in the determination of fair value, in initial and subsequent recognition, if the fair value is required or allowed by other specific FRS.

FRS C-3 "Accounts receivable". FRS C-3 is effective for years beginning on or after January 1, 2018, (January 1, 2020 for credit institutions) and is applicable retrospectively. With retrospective effects, except for the valuation effects that may be prospectively recognized, if it is impractical to determine the effect on each one of the prior periods presented.

FRS C-9 "Provisions, Contingencies and Commitments". FRS C-9 is effective for years beginning on or after January 1, 2018 (January 1, 2020 for credit institutions) and is applicable retrospectively. FRS C-9 supersedes Bulletin C-9 "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments". The first-time adoption of this FRS does not result in accounting changes in the financial statements.

FRS C-16 "Impairment of financial instruments receivable". FRS C-16 is effective for years beginning on or after January 1, 2018 (January 1, 2020 for credit institutions) and is applicable retrospectively. It establishes standards for the accounting recognition of impairment losses of all financial instruments receivable; it indicates when and how an expected impairment loss should be recognized and establishes the methodology for determination.

FRS C-19 "Financial instruments payable"- FRS C-19 is effective for years beginning on or after January 1, 2018 (January 1, 2020 for credit institutions).

FRS C-20 "Financing instruments receivable". is effective for years beginning on or after January 1, 2018 (January 1,2020 for credit institutions) and is applicable retrospectively. The entity must determine its business model in the management of its financial assets.

FRS D-1 "Revenue from contracts with customers". FRS D-1 establishes standards for the accounting recognition of revenues arising from contracts with customers and is effective for periods beginning on or after January 1, 2018 (January 1, 2020 for credit institutions) with retrospective effects. It eliminates the supplementary application of International Accounting Standard (IAS) 18 "Revenues", SIC 31 "Revenues – Barter transactions of advertising services", IFRIC 13 "Customer Loyalty Programs", and IFRIC 18 "Transfers of assets from customers". Additionally, this FRS, along with FRS D-2, repeals Bulletin D-7 "Construction and manufacturing contracts of certain capital goods" and IFRS 14 "Construction, sales and service contracts related to real estate".

FRS D-2 "Costs from contracts with customers". FRS D-2 establishes rules for the accounting recognition of costs of sales of goods or provision of services. This is effective for periods starting on or after January 1, 2018 (January 1, 2020 for credit institutions) with retrospective effects. Along with this FRS, it repeals Bulletin D -7 "Construction and manufacturing contracts of certain capital goods" and IFRS 14 "Construction, sales and service contracts related to real estate", except regarding the recognition of assets and liabilities in this type of contracts within the scope of other FRS.

NIF D-5 "Leases". It comes into force for the periods beginning on or after January 1, 2019 (January 1, 2020 for credit institutions) with retrospective effects. This new regulation annuls the Bulletin D-5 "Leases" and the supplementary nature of IFRIC 4 "Determination of whether an agreement contains a lease".

Improvements to FRS for 2019. They are issued by the CINIF as part of the update process and include specific changes in the FRS that may or may not generate accounting changes.

The improvements to the FRS that generate accounting changes apply to FRS B-9 "Financial information at intermediate dates" related to new disclosure requirements regarding the fair value of financial instruments and income from contracts with customers, treated in FRS C-2, C-20, C-19, B-17 and D-1, which will become effective for credit institutions as of January 1, 2020.

The improvements to the FRS that do not generate accounting changes are modifications related to clarifications, which contribute to establishing a clearer and more reasonable regulatory approach. These apply to various standards by adjustments in terminology associated with the new FRS on financial instruments, mainly and over the correction in definitions of certain FRS to standardize these with the rest of the standards.