

BBVA Bancomer

Financial Report January–December 2018

BBVA Bancomer

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Relevant Information

Decree and distribution of dividends

On December 2018, BBVA Bancomer, S.A. Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer (BBVA Bancomer) decreed the third dividend at the Ordinary General Shareholders' Meeting for the year 2017, at a rate of \$0.367846188892528 for each outstanding shares.

The dividend was paid on December 11, 2018.

Early recognition of changes in criterion B-6 Loan Portfolio and D-2 Income Statement

In the Official Gazette in December 27, 2017 the National Banking and Securities Commission (CNBV) published an adjustment to the accounting criteria B-6 Loan Portfolio and D-2 Income Statement, to cancel, in the period in which occur, the surplus in the balance of provisions for loan losses, as well as to recognize the recovery of loans written off or eliminated with the provision for loan losses.

These changes would take place in January 1, 2019. However, the CNBV gave the option to apply the changes the following day of the publication of the provision, or after, only if the CNBV is notified of the anticipated application of the change mentioned.

BBVA Bancomer decided to recognize in advance the annulment of surplus and recoveries on loans written off or eliminated, in the line of provisions for loan losses, which was recognized under Other Income (expenses). The financial effect as of December 31, 2018 is 1,538 million pesos and for comparability purposes to December 2017 is 907 million pesos.

Note: Please find the regulatory pronouncements recently issued at the end of the document.

Management and Discussion Analysis

Commercial Activity

Performing Loans

As of December 2018, the loan portfolio reached 1,140,319 million pesos, equivalent to an annual growth of 8.0%.

Inside the breakdown, the commercial portfolio grew at 8.9% over the year. In detail, loans to businesses (corporates, medium enterprises, homebuilders and SMEs) showed the higher dynamism with an annual increase of 10.1%.

Consumer lending, including credit cards, grew at 6.0% in annual terms. Inside this portfolio, payroll, personal and car loans showed a 9.0% increase to reach a total balance of 166,141 million pesos at the end of December 2018. In the credit card portfolio, the good performance of BBVA Bancomer's customers can be seen in the evolution of the balance (+1.7% Y-o-Y), since they pay the total amount of the debt at the end of the month. However, the billing with credit cards registers a positive trend with a double-digit annual growth (+10.4% Y-o-Y).

Mortgage loans registered an annual growth of 7.6%, with a balance of 208,577 million pesos at the end of December. This evolution allows BBVA Bancomer to remain leader in the mortgage market by granting one out of four new mortgages in the private sector according to the public information of the CNBV as of October 2018.

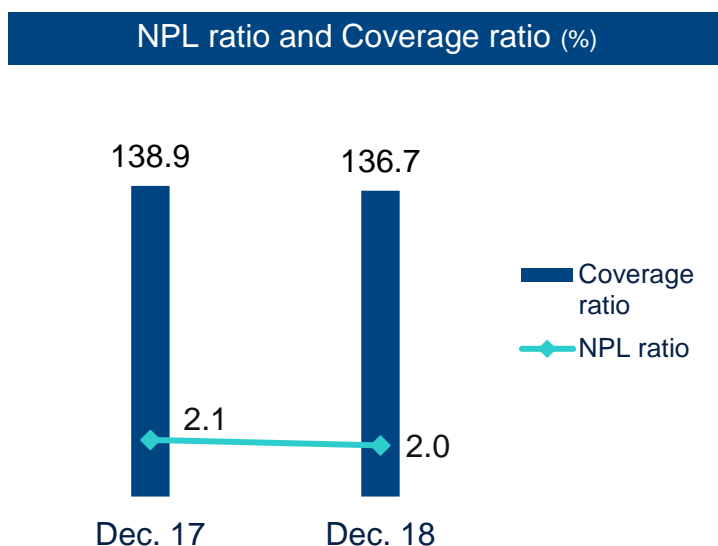
| Performing Loans | 12M | 9M | 12M | % | |
|---------------------------------|------------------|------------------|------------------|--------------|--------------|
| <i>Figures in million pesos</i> | 2017 | 2018 | 2018 | Q-o-Q | Y-o-Y |
| Businesses | 452,669 | 492,217 | 498,432 | 1.3 | 10.1 |
| Financial entities | 27,899 | 26,867 | 30,898 | 15.0 | 10.7 |
| Government loans | 71,516 | 75,685 | 77,145 | 1.9 | 7.9 |
| State-owned entities | 52,748 | 57,610 | 52,034 | (9.7) | (1.4) |
| Government | 124,264 | 133,295 | 129,178 | (3.1) | 4.0 |
| Commercial loans | 604,832 | 652,379 | 658,508 | 0.9 | 8.9 |
| Consumer | 257,669 | 266,785 | 273,234 | 2.4 | 6.0 |
| Mortgage | 193,834 | 204,647 | 208,577 | 1.9 | 7.6 |
| Total Performing Loans | 1,056,335 | 1,123,811 | 1,140,319 | 1.5 | 8.0 |

Asset quality

Non-performing loans

BBVA Bancomer’s strict risk management is reflected in the evolution of asset quality. The NPL ratio had an improvement of 11 basis points and stood at 2.0% at the end of December 2018.

| Non Performing Loans | 12M | 9M | 12M | % | |
|-----------------------------------|---------------|---------------|---------------|--------------|--------------|
| <i>Figures in million pesos</i> | 2017 | 2018 | 2018 | Q-o-Q | Y-o-Y |
| Businesses | 6,366 | 7,051 | 8,015 | 13.7 | 25.9 |
| Financial entities | 0 | 0 | 0 | n.a. | n.a. |
| Government entities | 0 | 0 | 0 | n.a. | n.a. |
| Commercial loans | 6,366 | 7,051 | 8,015 | 13.7 | 25.9 |
| Consumer | 9,703 | 9,035 | 9,034 | (0.0) | (6.9) |
| Mortgage | 6,676 | 5,867 | 6,225 | 6.1 | (6.8) |
| Total Non Performing Loans | 22,745 | 21,953 | 23,274 | 6.0 | 2.3 |



Loan Portfolio Credit Quality Classification

More than 80% of the portfolio is classified with the minimum risk level, which means that BBVA Bancomer has an adequate asset quality.

BBVA Bancomer
Performing Loan Rating
December 2018

Figures in million pesos

| Ratings | Commercial Loans | | Mortgage | | Consumer | | Credit Card | |
|-----------------------|------------------|--------------|----------------|--------------|----------------|---------------|----------------|---------------|
| | Balance | Provision | Balance | Provision | Balance | Provision | Balance | Provision |
| A1 | 624,738 | 1,420 | 187,749 | 422 | 52,680 | 441 | 45,139 | 750 |
| A2 | 62,241 | 647 | 6,344 | 62 | 16,399 | 413 | 15,387 | 606 |
| B1 | 21,797 | 358 | 2,506 | 48 | 44,206 | 1,470 | 9,093 | 522 |
| B2 | 7,182 | 157 | 2,827 | 75 | 29,054 | 1,322 | 8,880 | 644 |
| B3 | 13,361 | 415 | 1,887 | 63 | 7,946 | 442 | 8,931 | 798 |
| C1 | 1,769 | 111 | 4,904 | 253 | 6,309 | 462 | 8,910 | 1,050 |
| C2 | 1,898 | 110 | 3,463 | 665 | 4,406 | 441 | 10,251 | 2,457 |
| D | 5,251 | 1,681 | 4,357 | 1,439 | 2,569 | 588 | 2,618 | 1,266 |
| E | 5,983 | 3,062 | 766 | 377 | 7,221 | 4,814 | 2,290 | 1,962 |
| Additional | | 0 | | 0 | | 0 | | 0 |
| Total required | 744,220 | 7,961 | 214,803 | 3,404 | 170,790 | 10,393 | 111,499 | 10,055 |

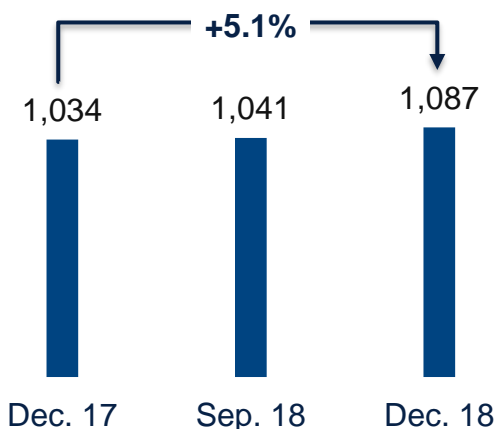
Deposits

Bank deposits (defined as demand and time customer deposits) showed an annual growth of 5.1%. Inside the breakdown, demand deposits increase 3.5% since December 2017, while time deposits registered a growth of 2.9% in the same period. However, BBVA Bancomer maintains a profitable funding mix with a higher relative weight of low-cost deposits.

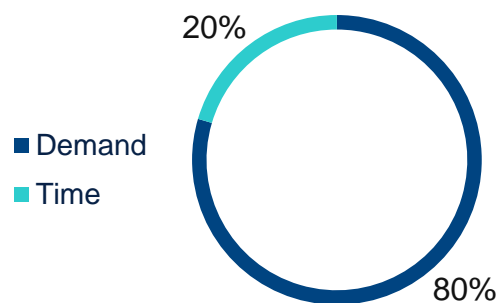
Total deposits recorded an annual growth of 3.3% due to the lower dynamism of the money market.

| Deposits | 12M 2017 | 9M 2018 | 12M 2018 | % Q-o-Q | Y-o-Y |
|---|------------------|------------------|------------------|------------|------------|
| <i>Figures in million pesos</i> | | | | | |
| Demand deposits | 835,427 | 812,555 | 864,651 | 6.4 | 3.5 |
| Time Deposits | 237,602 | 255,503 | 244,511 | (4.3) | 2.9 |
| Customer Deposits | 198,542 | 228,209 | 222,013 | (2.7) | 11.8 |
| Money Market | 39,060 | 27,294 | 22,498 | (17.6) | (42.4) |
| Bonds | 86,280 | 89,695 | 88,162 | (1.7) | 2.2 |
| Deposits global account without movements | 3,324 | 3,473 | 3,565 | 2.6 | 7.3 |
| Total Deposits | 1,162,633 | 1,161,226 | 1,200,889 | 3.4 | 3.3 |

Banking Deposits (mp)



Banking Deposits Mix (%)

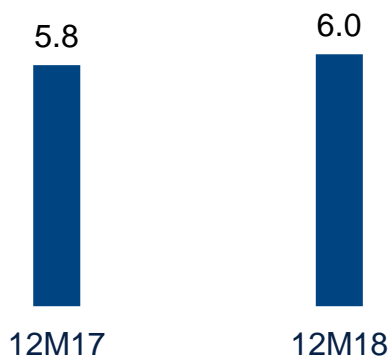


Results

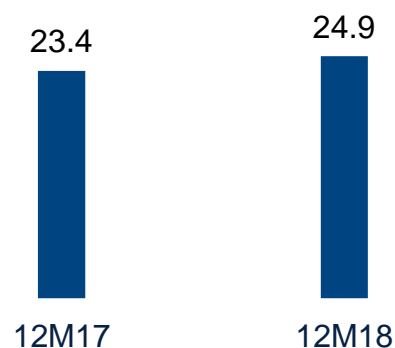
During 2018, BBVA Bancomer recorded solid results, maintaining double-digit annual growth in net income. As of December 2018, net income stood at 46,060 million pesos, 17.7% higher than the same period of the previous year.

| BBVA Bancomer Income Statement | 4Q | 3Q | 4Q | % | 12M | 12M | % |
|---|--------------|---------------|---------------|--------------|---------------|---------------|--------------|
| <i>Figures in million pesos</i> | 2017 | 2018 | 2018 | Q-o-Q | 2017 | 2018 | Y-o-Y |
| Net interest income | 29,563 | 31,378 | 32,027 | 2.1 | 113,009 | 122,912 | 8.8 |
| Provisions for loan losses | (8,130) | (7,244) | (8,724) | 20.4 | (33,198) | (32,299) | (2.7) |
| Net interest income after provisions for loan losses | 21,433 | 24,134 | 23,303 | (3.4) | 79,811 | 90,613 | 13.5 |
| Total Fees & Commission | 6,764 | 7,011 | 7,052 | 0.6 | 25,821 | 27,830 | 7.8 |
| Trading income | 658 | (54) | 221 | n.a. | 4,627 | 3,471 | (25.0) |
| Other operating income | (228) | (417) | 11 | n.a. | 378 | 504 | 33.3 |
| Total operating revenues | 28,627 | 30,674 | 30,587 | (0.3) | 110,637 | 122,418 | 10.6 |
| Non-interest expense | (15,461) | (15,128) | (14,577) | (3.6) | (57,608) | (59,168) | 2.7 |
| Net operating income | 13,166 | 15,546 | 16,010 | 3.0 | 53,029 | 63,250 | 19.3 |
| Share in net income of unconsolidated subsidiaries and affiliates | 8 | 10 | 9 | (10.0) | 34 | 36 | 5.9 |
| Income before income tax and profit sharing | 13,174 | 15,556 | 16,019 | 3.0 | 53,063 | 63,286 | 19.3 |
| Net Taxes | (3,373) | (4,208) | (4,358) | 3.6 | (13,919) | (17,224) | 23.7 |
| Income before discontinued operations | 9,801 | 11,348 | 11,661 | 2.8 | 39,144 | 46,062 | 17.7 |
| Non-controlling interest | (1) | - | (1) | n.a. | (1) | (2) | n.a. |
| Net Income | 9,800 | 11,348 | 11,660 | 2.7 | 39,143 | 46,060 | 17.7 |

NIM (total assets, %)¹



ROE (%)



¹ Net Interest Margin (NIM) on total assets.

Net Interest Income

Net interest income's (NII) breakdown showed that the banking operation registered an annual growth of 8.2%, driven by higher volumes of commercial activity. When adding the net repos financial revenues, the NII grew 8.8% per year.

Additionally, with the provisions for loan losses, the adjusted NII increased at 13.5% when compared with December of the previous year.

| Net Interest Income | 4Q | 3Q | 4Q | % | 12M | 12M | % |
|---|---------------|---------------|---------------|--------------|---------------|---------------|--------------|
| <i>Figures in million pesos</i> | 2017 | 2018 | 2018 | Q-o-Q | 2017 | 2018 | Y-o-Y |
| Loans and deposits financial revenues | 29,039 | 31,018 | 31,619 | 1.9 | 112,778 | 121,720 | 7.9 |
| Margin fees | 436 | 491 | 511 | 4.1 | 1,542 | 1,962 | 27.2 |
| Banking net interest income | 29,475 | 31,509 | 32,130 | 2.0 | 114,320 | 123,682 | 8.2 |
| Repos financial revenues | 88 | (131) | (103) | (21.4) | (1,311) | (770) | (41.3) |
| Net interest income | 29,563 | 31,378 | 32,027 | 2.1 | 113,009 | 122,912 | 8.8 |
| Provisions for loan losses | (8,130) | (7,244) | (8,724) | 20.4 | (33,198) | (32,299) | (2.7) |
| Net interest income after provisions | 21,433 | 24,134 | 23,303 | (3.4) | 79,811 | 90,613 | 13.5 |

Fees and Commissions

Commissions increased at 7.8% in annual terms. This growth is driven by the ones related to the management and volume of investment funds. Likewise, and derived from a higher transaction volume, there is also a positive evolution of the commissions coming from credit and debit cards.

| Fees & Commissions | 4Q | 3Q | 4Q | % | 12M | 12M | % |
|-----------------------------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|
| <i>Figures in million pesos</i> | 2017 | 2018 | 2018 | Q-o-Q | 2017 | 2018 | Y-o-Y |
| Bank fees | 1,707 | 1,824 | 1,857 | 1.8 | 6,587 | 7,148 | 8.5 |
| Credit and debit card | 3,644 | 3,643 | 3,800 | 4.3 | 13,600 | 14,425 | 6.1 |
| Investment funds | 832 | 987 | 956 | (3.1) | 3,131 | 3,863 | 23.4 |
| Others | 581 | 557 | 439 | (21.2) | 2,503 | 2,394 | (4.4) |
| Commissions and fee income | 6,764 | 7,011 | 7,052 | 0.6 | 25,821 | 27,830 | 7.8 |

Other income (expenses) of the operation

The increase in this item is due to the fact that in 2018 there was an extraordinary income derived from the sale of some properties.

| Other Income | 4Q | 3Q | 4Q | % | 12M | 12M | % |
|--|--------------|--------------|-------------|--------------|-------------|-------------|--------------|
| <i>Figures in million pesos</i> | 2017 | 2018 | 2018 | Q-o-Q | 2017 | 2018 | Y-o-Y |
| Sales and recoveries of loan portfolio | 70 | 181 | 241 | 33.1 | 682 | 679 | (0.4) |
| Interest of loans to employees | 157 | 177 | 184 | 4.0 | 609 | 689 | 13.1 |
| Dividends collected unlisted | 1 | 0 | 39 | | 93 | 102 | 9.7 |
| Result of operation of foreclosed assets | 102 | (251) | (195) | (22.3) | 494 | (232) | n.a. |
| Write-offs | (156) | (272) | (199) | (26.8) | (660) | (745) | 12.9 |
| Legal contingencies | (146) | (292) | (24) | (91.8) | (498) | (547) | 9.8 |
| Donations | (304) | (123) | (218) | 77.2 | (662) | (560) | (15.4) |
| Other income | 48 | 163 | 183 | 12.3 | 320 | 1,118 | n.a. |
| Other operating income | (228) | (417) | 11 | n.a. | 378 | 504 | 33.3 |

Non-Interest Expenses

During 2018 we have maintained a continuous investment. This has been reflected in the strengthening of the banking infrastructure, being the leader in the market. At the end of December 2018, we have 1,833 offices and 12,610 ATMs to serve the entire customer base.

The strict management and expenditure control is reflected in a 2.7% annual growth, and allow BBVA Bancomer to consolidate its position as one of the most efficient institutions in the financial system, with an efficiency ratio, measured as expenses to income, of 38.2% at the end of December 2018.

| Non-Interest Expenses | 4Q | 3Q | 4Q | % | 12M | 12M | % |
|--|---------------|---------------|---------------|--------------|---------------|---------------|--------------|
| <i>Figures in million pesos</i> | 2017 | 2017 | 2018 | Q-o-Q | 2017 | 2018 | Y-o-Y |
| Administrative and operating expenses | 10,449 | 9,996 | 9,382 | (6.1) | 38,305 | 38,779 | 1.2 |
| Manageable expenses | 10,449 | 9,996 | 9,382 | (6.1) | 38,305 | 38,779 | 1.2 |
| Rents | 1,271 | 1,318 | 1,347 | 2.2 | 4,990 | 5,286 | 5.9 |
| Depreciation and amortization | 1,368 | 1,452 | 1,461 | 0.6 | 5,429 | 5,706 | 5.1 |
| Taxes | 1,080 | 1,061 | 1,033 | (2.6) | 3,967 | 4,180 | 5.4 |
| Deposit guarantee fund (IPAB) | 1,293 | 1,301 | 1,354 | 4.1 | 4,917 | 5,217 | 6.1 |
| Non-manageable expenses | 5,012 | 5,132 | 5,195 | 1.2 | 19,303 | 20,389 | 5.6 |
| Administrative and promotional expenses | 15,461 | 15,128 | 14,577 | (3.6) | 57,608 | 59,168 | 2.7 |

Financial Indicators

| BBVA Bancomer | 4Q 2017 | 1Q 2018 | 2Q 2018 | 3Q 2018 | 4Q 2018 | 12M 2017 | 12M 2018 |
|---|------------|------------|------------|------------|------------|-------------|-------------|
| Infrastructure Indicators (#) | | | | | | | |
| Branches | 1,840 | 1,833 | 1,836 | 1,831 | 1,833 | 1,840 | 1,833 |
| ATMs | 11,724 | 11,798 | 11,924 | 12,130 | 12,610 | 11,724 | 12,610 |
| Employees | 30,850 | 31,249 | 31,715 | 32,107 | 32,255 | 30,850 | 32,255 |
| Profitability Indicators (%) | | | | | | | |
| a) NIM adjusted (interest bearing assets) | 4.7 | 4.7 | 4.6 | 5.2 | 5.0 | 4.4 | 4.8 |
| b) NIM (total assets) | 6.0 | 5.9 | 5.9 | 6.2 | 6.3 | 5.8 | 6.0 |
| c) Operating efficiency | 3.1 | 2.9 | 2.9 | 3.0 | 2.9 | 2.9 | 2.9 |
| d) Efficiency (cost to income) | 42.1 | 38.5 | 37.5 | 39.9 | 37.1 | 40.1 | 38.2 |
| e) Productivity index | 43.7 | 45.3 | 48.1 | 46.3 | 48.4 | 44.8 | 47.0 |
| f) ROE | 22.4 | 25.1 | 25.8 | 24.2 | 24.3 | 23.4 | 24.9 |
| g) ROA | 2.0 | 2.3 | 2.3 | 2.2 | 2.3 | 2.0 | 2.3 |
| Asset Quality Indicators (%) | | | | | | | |
| h) NPL ratio | 2.1 | 2.1 | 1.9 | 1.9 | 2.0 | 2.1 | 2.0 |
| i) Coverage ratio | 138.9 | 138.9 | 145.1 | 143.1 | 136.7 | 138.9 | 136.7 |
| Solvency Indicators (%) | | | | | | | |
| j) Core equity tier 1 ratio | 11.7 | 11.9 | 11.5 | 11.6 | 12.0 | 11.7 | 12.0 |
| k) Total capital ratio | 14.3 | 15.2 | 14.8 | 14.7 | 15.3 | 14.3 | 15.3 |
| l) Leverage ratio | 8.8 | 9.0 | 8.8 | 9.4 | 9.3 | 8.8 | 9.3 |
| Liquidity Indicators (%) | | | | | | | |
| m) Liquidity ratio (CNBV requirement) | 75.0 | 77.9 | 70.8 | 67.1 | 71.0 | 75.0 | 71.0 |
| n) Liquidity ratio (Loans / Deposits) | 98.1 | 101.6 | 101.7 | 104.9 | 102.5 | 98.1 | 102.5 |
| o) Liquidity Coverage Coefficient (Local LCR) | 139.65 | 147.55 | 135.88 | 134.42 | 145.90 | 139.65 | 145.90 |

PROFITABILITY

- a) Net Interest Margin adjusted (NIM adjusted): Financial margin after provisions for loan losses (annualized) / Average productive assets
Average productive assets: Cash + Securities + Repo debtors + securities lending + derivatives + performing loans + Receivable benefits from securitization transactions + Valuation adjustments derived from hedges of financial assets
- b) Net Interest Margin (NIM): Net interest income (annualized) / Average total assets
- c) Operating efficiency: Expenses (annualized) / Average total assets
- d) Efficiency index: Administrative and promotional expenses / Net interest income + fees and commissions, net interest income + net income + other income (expense) of the operation
- e) Productivity Index: Commissions and fees, net / Promotion and administrative expenses
- f) Return on equity (ROE): Net income (annualized) / Average capital
- g) Return on assets (ROA): Net income (annualized) / Average total assets

ASSET QUALITY

- h) NPL ratio: Past due loans / Total gross portfolio
- i) Coverage Ratio: Allowance for loan losses / Portfolio overdue

SOLVENCY

- j) Core Equity Tier 1 Ratio: $\text{CET1 Capital} / \text{Risk Weighted Assets}$ to credit risk, market and operational (applied in Mexico since January 2013)
- k) Total Capital Ratio: $\text{Net Capital} / \text{Risk Weighted Assets}$ to credit risk, market and operational (applied in Mexico since January 2013)
- l) Leverage Ratio: $\text{Risk Capital} / \text{Exposure}$

LIQUIDITY

- m) Liquidity Ratio: $\text{Liquid assets} / \text{Liquid liabilities}$
- n) Liquid Assets: $\text{Cash and cash equivalents} + \text{Trading (securities)} + \text{Available for sale (securities)}$
- o) Liquid Liabilities: $\text{Demand deposits} + \text{Interbank loans and loans from other entities payable on demand} + \text{Interbank loans and loans from other entities short term}$
- p) Loans / Deposits: $\text{Performing loans} / \text{Core deposits (demand + time)}$
- q) CCL (Local LCR – Liquidity Coverage Ratio): $\text{Computable Liquid Assets} / \text{Outputs} - \text{Inputs}$

Capital and Liquidity

BBVA Bancomer’s estimated capitalization index stood at 15.27% as of December 2018, which is composed by 12.44% of Tier 1 capital and 2.83% of Tier 2 capital.

BBVA Bancomer fully covers the minimum capital requirements. For year 2018, derived from the additional allocation of capital for being classified as domestic systemically important financial institutions (Grade IV), BBVA Bancomer has a minimum requirement of 11.625% for the total capital ratio.

BBVA Bancomer

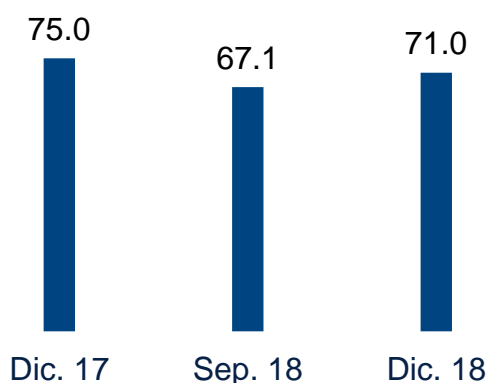
Capitalization

Figures in million pesos

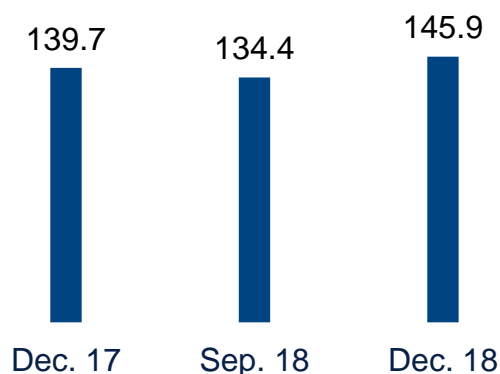
| | December 2017 | | September 2018 | | December 2018 | |
|-------------------------------------|---------------|---------------------------------|----------------|---------------------------------|---------------|---------------------------------|
| Tier 1 capital | 176,789 | | 188,062 | | 192,852 | |
| Tier 2 capital | 29,182 | | 42,694 | | 43,807 | |
| Net capital | 205,971 | | 230,756 | | 236,660 | |
| | Credit Risk | Market, Operative & Credit Risk | Credit Risk | Market, Operative & Credit Risk | Credit Risk | Market, Operative & Credit Risk |
| Risk-weighted assets | 990,103 | 1,445,035 | 1,079,022 | 1,569,666 | 1,096,252 | 1,549,713 |
| Tier 1 as % of risk-weighted assets | 17.9% | 12.2% | 17.4% | 12.0% | 17.6% | 12.4% |
| Tier 2 as % of risk-weighted assets | 2.9% | 2.0% | 4.0% | 2.7% | 4.0% | 2.8% |
| Net capital ratio | 20.8% | 14.3% | 21.4% | 14.7% | 21.6% | 15.3% |

The regulatory liquidity ratio, defined as Liquid Assets / Liquid Liabilities, stood at 71.0%. The Liquidity Coverage Ratio (Local LCR) stood at 145.90%, with a minimum required of 90%, this allows BBVA Bancomer to have comfortable liquidity levels for further growth.

Liquidity Ratio (%)



CCL (%)



Ratings

| BBVA Bancomer Ratings | Long Term | Short Term | Outlook |
|--|-----------|------------|----------|
| Standard and Poor's | | | |
| Issuer Credit Rating - Foreign Currency | BBB+ | A-2 | Stable |
| Issuer Credit Rating - Local Currency | BBB+ | A-2 | Stable |
| National Scale | mxAAA | mxA-1+ | Stable |
| Stand Alone Credit Profile (SACP) | a- | | |
| Moody's | | | |
| Bank Deposits - Foreign Currency | A3 | P-2 | Stable |
| Bank Deposits - Domestic Currency | A3 | P-2 | Stable |
| National Scale Rating Bank Deposits | Aaa.mx | MX-1 | |
| Baseline Credit Assessment (BCA) | baa1 | | |
| Fitch | | | |
| Issuer Default Rating - Foreign Currency | A- | F1 | Negative |
| Issuer Default Rating - Local Currency | A- | F1 | Negative |
| National Scale Rating | AAA(mex) | F1 + (mex) | Stable |
| Viability Rating (VR) | a- | | |

Issuances

BBVA Bancomer

Issuances

| Instruments | Amount | Original Currency | Issue Date | Due/Call Date | Term (years) | Rate | Ratings | | |
|--|--------|-------------------|------------|---------------|--------------|----------------|---------|-----------|-----------|
| | | | | | | | S&P | Moody's | Fitch |
| Senior Debt | | | | | | | | | |
| Bond 3rd Issuance UDIS (2,240) - BACOMER 07U | 2,240 | UDIS | 02-feb-07 | 09-jul-26 | 19.4 | 4.36% | | A3/Aaa.mx | AAA(mex) |
| Bond 7th Issuance UDIS (1,092) - BACOMER 10U | 1,092 | UDIS | 06-sep-10 | 24-ago-20 | 10.0 | 3.70% | | A3/Aaa.mx | AAA(mex) |
| Bond 8th Issuance - BACOMER 10 | 1,078 | MXN | 06-sep-10 | 24-ago-20 | 10.0 | 7.83% | | A3/Aaa.mx | AAA(mex) |
| Bond 2nd Issuance 2011 - BACOMER 21145 | 1,000 | MXN | 15-abr-11 | 02-abr-21 | 10.0 | TIIE28 + 0.80% | | A3/Aaa.mx | AAA(mex) |
| Bond 4th Issuance 2012 - BACOMER 22224 | 1,000 | MXN | 07-jun-12 | 26-may-22 | 10.0 | TIIE28 + 0.85% | | A3/Aaa.mx | AAA(mex) |
| Senior Notes Dlls 2014 | 750 | USD | 10-abr-14 | 10-abr-24 | 10.0 | 4.38% | | A3 | A- |
| Bond 1st Issuance 2016 - BACOMER 16 | 4,000 | MXN | 30-jun-16 | 27-jun-19 | 3.0 | TIIE28 + 0.23% | | A3/Aaa.mx | AAA(mex) |
| Bond 2nd Issuance 2017 - BACOMER 17 | 5,142 | MXN | 26-may-17 | 26-may-20 | 3.0 | TIIE28+0.23% | | A3/Aaa.mx | AAA(mex) |
| Bond 2nd Issuance 2017 - BACOMER 17-2 | 1,858 | MXN | 26-may-17 | 26-may-22 | 3.0 | TIIE28+0.23% | | A3/Aaa.mx | AAA(mex) |
| Bond 4rd Issuance 2017 - BACOMER 18V | 3,500 | MXN | 27-sep-18 | 23-sep-21 | 3.0 | TIIE28+0.19% | | A3/Aaa.mx | AAA(mex) |
| Bond 5th Issuance 2017 - BACOMER 18 | 3,500 | MXN | 27-sep-18 | 21-sep-21 | 3.0 | TIIE28+0.19% | | A3/Aaa.mx | AAA(mex) |
| Subordinated Debentures | | | | | | | | | |
| Capital Notes Tier 1 2020 | 1,000 | USD | 22-abr-10 | 22-abr-20 | 10.0 | 7.25% | | | Ba1 BB+ |
| Subordinated Debentures Tier 2 2021 | 1,250 | USD | 10-mar-11 | 10-mar-21 | 10.0 | 6.50% | | | Baa3 BBB- |
| Subordinated Debentures Tier 2 2022 | 1,500 | USD | 19-jul-12 | 30-sep-22 | 10.2 | 6.75% | | | Baa3 BBB- |
| Subordinated Debentures Tier 2 2029 (15NC10) | 200 | USD | 06-nov-14 | 06-nov-29 | 15NC10 | 5.35% | | | Ba1 BBB- |
| Subordinated Debentures Tier 2 2033 (15NC10) | 1,000 | USD | 18-ene-18 | 18-ene-33 | 15NC10 | 5.13% | BB+ | | BBB- |
| Mortgage Securitization | | | | | | | | | |
| 1st Issuance - BACOMCB 07 | 2,540 | MXN | 21-dic-07 | 13-mar-28 | 20.2 | 9.05% | mxAAA | A3/Aaa.mx | AAA(mex) |
| 2nd Issuance - BACOMCB 08 | 1,114 | MXN | 14-mar-08 | 14-jul-28 | 20.3 | 8.85% | mxAAA | | AAA(mex) |
| 4th Issuance - BACOMCB 08-2 | 5,509 | MXN | 01-dic-08 | 19-ago-30 | 21.7 | 9.91% | mxAAA | A3/Aaa.mx | |
| 5th Issuance Serie 3 - BACOMCB 09-3 | 3,616 | MXN | 07-ago-09 | 24-may-29 | 19.8 | 10.48% | mxAAA | | AAA(mex) |
| 1st Issuance - BMERCB 13 | 4,192 | MXN | 21-jun-13 | 07-abr-33 | 19.8 | 6.38% | mxAAA | | AAA(mex) |

Financial Statements

Balance Sheet (Last 5 quarters)

BBVA Bancomer

| Assets | Dec | Mar | Jun | Sep | Dec |
|---|------------------|------------------|------------------|------------------|------------------|
| | 2017 | 2018 | 2018 | 2018 | 2018 |
| <i>Figures in million pesos</i> | | | | | |
| CASH AND CASH EQUIVALENTS | 217,126 | 187,426 | 154,141 | 136,293 | 232,851 |
| Margin call accounts | 14,359 | 11,736 | 12,938 | 11,501 | 10,548 |
| SECURITIES | 430,771 | 463,101 | 483,223 | 436,757 | 410,261 |
| Trading | 285,970 | 319,326 | 325,029 | 272,340 | 263,419 |
| Available for sale | 130,137 | 128,843 | 141,038 | 141,957 | 124,201 |
| Held to maturity | 14,664 | 14,932 | 17,156 | 22,460 | 22,641 |
| Debtors from repurchase agreement | 76 | 141 | 67 | 60 | 66 |
| Derivatives | 138,558 | 118,816 | 129,678 | 119,668 | 140,617 |
| Trading | 122,524 | 107,188 | 115,704 | 107,868 | 125,804 |
| Hedging Transactions | 16,034 | 11,628 | 13,974 | 11,800 | 14,813 |
| Valuation adjustments derived from hedges of financial assets | 286 | 461 | 112 | (55) | (518) |
| PERFORMING LOANS | 1,056,334 | 1,057,468 | 1,125,381 | 1,123,811 | 1,140,319 |
| Commercial loans | 604,832 | 600,628 | 660,764 | 652,379 | 658,508 |
| Business or commercial activity | 452,669 | 446,273 | 508,093 | 492,217 | 498,432 |
| Financial entities | 27,899 | 28,581 | 28,311 | 26,867 | 30,898 |
| Government entities | 124,264 | 125,774 | 124,360 | 133,295 | 129,178 |
| Consumer | 257,669 | 259,176 | 263,701 | 266,785 | 273,234 |
| Mortgage | 193,833 | 197,664 | 200,916 | 204,647 | 208,577 |
| Residential Mortgages | 181,286 | 185,197 | 188,996 | 193,230 | 197,825 |
| Social Housing | 12,547 | 12,467 | 11,920 | 11,417 | 10,752 |
| NON PERFORMING LOANS | 22,745 | 22,201 | 21,790 | 21,953 | 23,274 |
| Commercial loans | 6,366 | 6,382 | 7,102 | 7,051 | 8,015 |
| Business or commercial activity | 6,366 | 6,382 | 7,102 | 7,051 | 8,015 |
| Financial entities | 0 | 0 | 0 | 0 | 0 |
| Government entities | 0 | 0 | 0 | 0 | 0 |
| Consumer | 9,703 | 9,051 | 8,911 | 9,035 | 9,034 |
| Mortgage | 6,676 | 6,768 | 5,777 | 5,867 | 6,225 |
| Residential Mortgages | 5,913 | 6,014 | 5,119 | 5,243 | 5,603 |
| Social Housing | 763 | 754 | 658 | 624 | 622 |
| TOTAL LOANS | 1,079,079 | 1,079,669 | 1,147,171 | 1,145,764 | 1,163,593 |
| Allowance for loan losses | (31,596) | (30,841) | (31,621) | (31,418) | (31,811) |
| TOTAL LOANS, NET | 1,047,483 | 1,048,828 | 1,115,550 | 1,114,346 | 1,131,782 |
| Receivable benefits from securitization transactions | 159 | 142 | 119 | 107 | 87 |
| Other accounts receivable, net | 80,160 | 89,740 | 102,190 | 91,277 | 76,778 |
| Repossessed assets, net | 2,602 | 2,357 | 2,122 | 1,907 | 1,759 |
| Property, furniture and equipment, net | 41,349 | 40,365 | 39,524 | 39,185 | 40,169 |
| Equity investments | 1,235 | 1,239 | 1,278 | 907 | 534 |
| Deferred taxes, net | 14,931 | 14,885 | 15,716 | 13,957 | 16,667 |
| Other assets | 7,891 | 9,072 | 8,061 | 8,500 | 6,658 |
| Deferred charges, prepaid expenses and intangibles | 7,891 | 9,072 | 8,061 | 8,500 | 6,658 |
| Other assets , short and long term | 0 | 0 | 0 | 0 | 0 |
| TOTAL ASSETS | 1,996,986 | 1,988,309 | 2,064,719 | 1,974,410 | 2,068,259 |

BBVA Bancomer
Liabilities & Stockholders' Equity
Figures in million pesos

| | Dec 2017 | Mar 2018 | Jun 2018 | Sep 2018 | Dec 2018 |
|--|-------------|-------------|-------------|-------------|-------------|
| TOTAL DEPOSITS | 1,162,633 | 1,122,187 | 1,189,180 | 1,161,226 | 1,200,889 |
| Demand deposits | 835,427 | 807,977 | 859,552 | 812,555 | 864,651 |
| Time Deposits | 237,602 | 229,447 | 243,894 | 255,503 | 244,511 |
| Customer deposits | 198,542 | 211,458 | 220,601 | 228,209 | 222,013 |
| Money market | 39,060 | 17,989 | 23,293 | 27,294 | 22,498 |
| Bonds | 86,280 | 81,552 | 82,307 | 89,695 | 88,162 |
| Deposits global account without movements | 3,324 | 3,211 | 3,427 | 3,473 | 3,565 |
| INTER BANK LOANS AND LOANS FROM OTHER ENTITIES | 17,380 | 15,533 | 24,737 | 17,061 | 17,861 |
| Payable on demand | 0 | 0 | 7,556 | 0 | 0 |
| Short- term | 9,164 | 7,488 | 8,728 | 8,181 | 9,425 |
| Long- term | 8,216 | 8,045 | 8,453 | 8,880 | 8,436 |
| Creditors from repurchase agreements | 225,828 | 245,039 | 196,110 | 197,992 | 203,713 |
| Securities creditors | 2 | 4 | 4 | 3 | 1 |
| COLLATERALS SOLD OR DELIVERED IN GUARANTEE | 50,720 | 74,375 | 82,999 | 60,732 | 39,438 |
| Repurchase | 0 | 1 | 0 | 0 | 0 |
| Securities lending | 50,719 | 74,375 | 82,999 | 60,732 | 39,438 |
| DERIVATIVES | 146,348 | 119,688 | 132,464 | 120,954 | 138,077 |
| Trading | 134,985 | 109,487 | 121,676 | 111,500 | 129,005 |
| Hedge transactions | 11,363 | 10,201 | 10,788 | 9,454 | 9,072 |
| Valuation adjustments derived from hedges of financial liabilities | 3,629 | 660 | 403 | (708) | 1,485 |
| OTHER PAYABLES | 127,799 | 128,998 | 145,199 | 126,146 | 166,019 |
| Profit taxes payable | 0 | 0 | 0 | 0 | 519 |
| Employee profit sharing (PTU) payable | 2 | 2 | 2 | 2 | 2 |
| Transaction settlement creditors | 65,683 | 83,088 | 91,458 | 59,597 | 101,467 |
| Creditors from collaterals received in cash | 24,394 | 17,761 | 21,233 | 19,937 | 27,302 |
| Accrued liabilities and other | 37,720 | 28,147 | 32,506 | 46,610 | 36,729 |
| Subordinated debt | 78,966 | 91,386 | 99,231 | 93,647 | 99,029 |
| Deferred credits and advanced collections | 7,908 | 8,647 | 8,503 | 7,673 | 7,524 |
| TOTAL LIABILITIES | 1,821,213 | 1,806,517 | 1,878,830 | 1,784,726 | 1,874,036 |
| SUBSCRIBED CAPITAL | 40,003 | 40,003 | 40,003 | 40,003 | 40,003 |
| Paid- in capital | 24,143 | 24,143 | 24,143 | 24,143 | 24,143 |
| Share premium | 15,860 | 15,860 | 15,860 | 15,860 | 15,860 |
| EARNED CAPITAL | 135,734 | 141,753 | 145,849 | 149,644 | 154,182 |
| Capital reserves | 6,901 | 6,901 | 6,901 | 6,901 | 6,901 |
| Results of prior years | 93,654 | 127,466 | 119,786 | 112,055 | 106,475 |
| Unrealized gain on available- for- sale securities | (2,067) | (1,633) | (1,943) | (1,394) | (2,246) |
| Result from valuation of cash flow hedging instruments | 122 | (174) | 22 | (404) | (106) |
| Accumulated effect by conversion | 440 | 440 | 440 | 440 | 440 |
| Redefined benefits to employees | (2,459) | (2,459) | (2,408) | (2,355) | (3,342) |
| Net income | 39,143 | 11,212 | 23,051 | 34,401 | 46,060 |
| MAJORITY STOCKHOLDERS' EQUITY | 175,737 | 181,756 | 185,852 | 189,647 | 194,185 |
| Non- controlling interest in consolidated subsidiaries | 36 | 36 | 37 | 37 | 38 |
| TOTAL STOCKHOLDERS EQUITY | 175,773 | 181,792 | 185,889 | 189,684 | 194,223 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | 1,996,986 | 1,988,309 | 2,064,719 | 1,974,410 | 2,068,259 |

Memorandum accounts

| BBVA Bancomer Memorandum accounts | Dec 2017 | Mar 2018 | Jun 2018 | Sep 2018 | Dec 2018 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| <i>Figures in million pesos</i> | | | | | |
| Contingent assets and liabilities | 565 | 559 | 554 | 607 | 658 |
| Credit commitments | 566,652 | 563,892 | 576,798 | 565,398 | 588,114 |
| In trusts | 419,391 | 412,185 | 431,631 | 433,864 | 414,525 |
| Under mandate | 24,197 | 24,272 | 24,258 | 24,262 | 24,257 |
| Assets in trust or under mandate | 443,588 | 436,457 | 455,889 | 458,126 | 438,782 |
| Assets in custody or under administration | 182,857 | 184,019 | 189,719 | 197,580 | 183,836 |
| Collaterals received by the institution | 57,648 | 94,618 | 86,694 | 66,805 | 45,946 |
| Collaterals received and sold or pledged as collateral by the institution | 53,821 | 90,917 | 82,999 | 62,734 | 40,437 |
| Investment banking transactions on behalf of third parties, net | 1,212,812 | 1,152,283 | 1,273,071 | 1,293,144 | 1,231,184 |
| Accrued interest on non- performing loans | 4,832 | 4,586 | 4,706 | 5,293 | 6,066 |
| Other record accounts | 3,305,997 | 3,338,586 | 3,446,049 | 3,471,319 | 3,570,501 |

"This consolidated balance sheet is prepared in accordance with the Accounting Criteria for Credit Institutions issued by the National Banking and Securities Commission, based on the Articles 99, 101 and 102 of the Mexican Credit Institutions Law, of general and compulsory observance, consistently applied, reflecting the operations conducted by the Bank up to the above date, which were realized and valued in accordance with sound banking practices and applicable legal and administrative disposals.

The Board of Directors under the responsibility of the managers who subscribe it approved this consolidated financial statement."

Eduardo Osuna Osuna

CEO

Luis Ignacio De La Luz Dávalos

CFO

Natalia Ortega Gómez

Head of Internal Audit

Sergio Pérez Gaytán

Head of Accounting

P&L (Last 5 quarters)

BBVA Bancomer
Financial Results

| | 4Q | 1Q | 2Q | 3Q | 4Q | 12M | 12M |
|---|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2017 | 2018 | 2018 | 2018 | 2018 | 2017 | 2018 |
| <i>Figures in million pesos</i> | | | | | | | |
| Interest Income | 44,640 | 44,746 | 46,812 | 47,881 | 49,193 | 167,665 | 188,632 |
| Interest Expenses | (15,077) | (15,261) | (16,790) | (16,503) | (17,166) | (54,656) | (65,720) |
| Net interest income | 29,563 | 29,485 | 30,022 | 31,378 | 32,027 | 113,009 | 122,912 |
| Provisions for loan losses | (8,130) | (7,740) | (8,591) | (7,244) | (8,724) | (33,198) | (32,299) |
| Net interest income after provisions for loan losses | 21,433 | 21,745 | 21,431 | 24,134 | 23,303 | 79,811 | 90,613 |
| Fees & Commissions received | 10,414 | 10,223 | 11,015 | 10,799 | 11,532 | 39,361 | 43,569 |
| Fees & Commissions paid | (3,650) | (3,600) | (3,871) | (3,788) | (4,480) | (13,540) | (15,739) |
| Total Fees & Commissions | 6,764 | 6,623 | 7,144 | 7,011 | 7,052 | 25,821 | 27,830 |
| Trading income | 658 | 1,709 | 1,595 | (54) | 221 | 4,627 | 3,471 |
| Other operating income | (228) | 110 | 800 | (417) | 11 | 378 | 504 |
| Total operating revenues | 28,627 | 30,187 | 30,970 | 30,674 | 30,587 | 110,637 | 122,418 |
| Non-interest expense | (15,461) | (14,617) | (14,846) | (15,128) | (14,577) | (57,608) | (59,168) |
| Operating income | 13,166 | 15,570 | 16,124 | 15,546 | 16,010 | 53,029 | 63,250 |
| Share in net income of unconsolidated subsidiaries and affiliates | 8 | (24) | 41 | 10 | 9 | 34 | 36 |
| Income before tax | 13,174 | 15,546 | 16,165 | 15,556 | 16,019 | 53,063 | 63,286 |
| Current income tax and profit sharing | (3,123) | (4,438) | (5,120) | (2,786) | (6,390) | (13,863) | (18,734) |
| Deferred income tax and profit sharing | (250) | 105 | 795 | (1,422) | 2,032 | (56) | 1,510 |
| Net taxes | (3,373) | (4,333) | (4,325) | (4,208) | (4,358) | (13,919) | (17,224) |
| Income before discontinued operations | 9,801 | 11,213 | 11,840 | 11,348 | 11,661 | 39,144 | 46,062 |
| Minority Interest | (1) | 0 | (1) | 0 | (1) | (1) | (2) |
| NET INCOME | 9,800 | 11,213 | 11,839 | 11,348 | 11,660 | 39,143 | 46,060 |

“This consolidated income statement is prepared in accordance with the Accounting Criteria for Credit Institutions issued by the National Banking and Securities Commission, based on the Articles 99, 101 and 102 of the Mexican Credit Institutions Law, of general and compulsory observance, consistently applied, reflecting the operations conducted by the Bank up to the above date, which were realized and valued in accordance with sound banking practices and applicable legal and administrative disposals.

The Board of Directors under the responsibility of the managers who subscribe it approved this consolidated financial statement.”

Eduardo Osuna Osuna

CEO

Luis Ignacio De La Luz Dávalos

CFO

Natalia Ortega Gómez

Head of Internal Audit

Sergio Pérez Gaytán

Head of Accounting

Cash Flow

BBVA Bancomer
Cash Flow Statement (from January 1st to December 31st 2018)

Figures in million pesos

| | |
|--|-----------------|
| Net income | 46,060 |
| Adjustments derived from items not involving cash flow | |
| Profit or loss derived from the valuation of investment and financing activities | 731 |
| Depreciation of property, furniture and fixtures | 3,164 |
| Amortization of intangible assets | 2,542 |
| Provisions | (172) |
| Income taxes | 17,224 |
| Share in net income of unconsolidated subsidiaries and affiliated companies | (36) |
| Noncontrolling interest | 2 |
| Operating activities | |
| Change in margin call accounts | 3,807 |
| Change in investments in securities | 20,234 |
| Change in debtors from repurchase agreement | 10 |
| Change in derivatives (assets) | (3,280) |
| Change in loan portfolio (net) | (84,396) |
| Change in receivable benefits from securitization transactions | 71 |
| Change in repossessed assets | 842 |
| Change in other operating assets | 4,780 |
| Change in deposits | 38,360 |
| Change in interbank loans and other loans from other entities | 482 |
| Change in creditors from repurchase agreements | (22,116) |
| Change in collaterals sold or delivered in guarantee | (11,282) |
| Change in derivatives (liabilities) | (5,979) |
| Change in subordinated debt | 20,110 |
| Change in other operating liabilities | 36,623 |
| Change in hedging instruments (of hedge items related to operation activities) | (2,685) |
| Income taxes payment | (18,215) |
| Net cash flows used in operating activities | (22,634) |
| Investment activities | |
| Proceeds from the disposal of property, furniture and fixtures | 595 |
| Payments for the acquisition of property furniture and fixtures | (2,580) |
| Proceeds from the disposal of subsidiaries | 5 |
| Proceeds from cash dividends | 2 |
| Payments for acquisition of intangible assets | (2,814) |
| Net cash flows used in investment activities | (4,792) |
| Financing activities | |
| Cash dividends paid | (26,322) |
| Net cash flows used in financing activities | (26,322) |
| Net increase or decrease in cash and cash equivalents | 15,767 |
| Effects of changes in cash and cash equivalents | (42) |
| Cash and cash equivalents at the beginning of the year | 217,126 |
| Cash and cash equivalents at the end of the year | 232,851 |

“This consolidated cash flow statement is prepared in accordance with the Accounting Criteria for Credit Institutions issued by the National Banking and Securities Commission, based on the Articles 99, 101 and 102 of the Mexican Credit Institutions Law, of general and compulsory observance, consistently applied, reflecting the operations conducted by the Bank up to the above date, which were realized and valued in accordance with sound banking practices and applicable legal and administrative disposals.

The Board of Directors under the responsibility of the managers who subscribe it approved this consolidated financial statement.”

Eduardo Osuna Osuna
CEO

Luis Ignacio De La Luz Dávalos
CFO

Natalia Ortega Gómez
Head of Internal Audit

Sergio Pérez Gaytán
Head of Accounting

Variation in Stakeholders' Equity

| BBVA Bancomer | Subscribed Capital | | Earned Capital | | | | | | | | Majority Stockholder's Equity | Non Controlling Interest in Consolidated Subsidiaries | Total Stockholder's Equity |
|---|--------------------|---------------|------------------|------------------------|--|--|--|---------------------------------|-----------------|--------|-------------------------------|---|----------------------------|
| | Paid in Capital | Share Premium | Capital Reserves | Results of prior years | Unrealized Gain on Available for Sale Securities | Result from Valuation of Cash Flow Hedging Instruments | Result from Conversion of Foreign Subsidiaries | Redefined benefits to employees | Net Income | | | | |
| <i>Figures in million pesos</i> | | | | | | | | | | | | | |
| Balances as of December 31st, 2017 | 24,143 | 15,860 | 6,901 | 93,654 | (2,067) | | 122 | 440 | (2,458) | 39,143 | 175,737 | 36 | 175,773 |
| HOLDERS' MOVEMENTS IN LINE WITH STOCKHOLDERS | | | | | | | | | | | | | |
| Transfer from net income to results of prior years | | | | 39,143 | | | | | (39,143) | | - | | - |
| Decree of dividends | | | | (26,322) | | | | | | | (26,322) | | (26,322) |
| Total | - | - | - | 12,821 | - | - | - | - | (39,143) | | (26,322) | - | (26,322) |
| HOLDERS MOVEMENTS IN RECOGNITION TO THE REVENUES | | | | | | | | | | | | | |
| Net income | | | | | | | | | 46,060 | | 46,060 | 2 | 46,062 |
| Result from valuation of securities available for sale | | | | | (179) | | | | | | (179) | | (179) |
| Result from valuations of Cash Flow Hedging | | | | | | (228) | | | | | (228) | | (228) |
| Redefined benefits to employees | | | | | | | | (883) | | | (883) | | (883) |
| Total | - | - | - | - | (179) | (228) | - | (883) | 46,060 | | 44,770 | 2 | 44,772 |
| Balances as of December 31st 2018 | 24,143 | 15,860 | 6,901 | 106,475 | (2,246) | | (106) | 440 | (3,342) | 46,060 | 194,185 | 38 | 194,223 |

“This consolidated variation in stakeholders' equity statement is prepared in accordance with the Accounting Criteria for Credit Institutions issued by the National Banking and Securities Commission, based on the Articles 99, 101 and 102 of the Mexican Credit Institutions Law, of general and compulsory observance, consistently applied, reflecting the operations conducted by the Bank up to the above date, which were realized and valued in accordance with sound banking practices and applicable legal and administrative disposals.

The Board of Directors under the responsibility of the managers who subscribe it approved this consolidated financial statement.”

Eduardo Osuna Osuna

CEO

Luis Ignacio De La Luz Dávalos

CFO

Natalia Ortega Gómez

Head of Internal Audit

Sergio Pérez Gaytán

Director Contabilidad Corporativa

Regulatory pronouncements recently issued

- I. In accordance with the amendments to the General Provisions Applicable to Credit Institutions (the CUB) published in DOF of November 15, 2018, the CNBV has modified the following NIFs, which had previously been published in DOF of December 27, 2017, will be effective as of January 1, 2020.

Below is a brief description of the main changes with application on January 1, 2019:

Mexican FRS B-17 “Fair Value Determination”- It was issued to a) define the fair value; b) establish in a single regulatory framework the fair value determination; and c) standardize the disclosures on fair value determination. It is noteworthy that this Mexican FRS is a reference framework for the conceptual determination and it generates methodologies for determining fair value.

Mexican FRS C-3 “Accounts receivable”- Main changes refer to specifying that:

a) accounts receivable are based on an agreement that represents a financial instrument;

b) the allowance for uncollectible commercial accounts is recognized upon income accrual, based on the expected loan losses.

c) since initial recognition, it is required to consider the time value of money. Therefore, if the effect of the account receivable’s present value is significant in relation to its term, it should be adjusted considering such present value.

d) it is required to present an analysis of the change between opening balances and the final estimation for uncollectibility.

Mexican FRS C-9 “Provisions, contingencies and commitments”- The term “likely” in the definition of “liability” was adjusted, eliminating the term “virtually unavoidable”. First time adoption of this Mexican FRS does not generate accounting changes in the financial statements of the entities.

Mexican FRS C-16 “Impairment of financial instruments to be collected (IFC)”- It determines when and how expected losses for IFC impairment must be recorded, which must be recognized when the credit risk has increased. It is concluded that a portion of the IFC’s future cash flows shall not be recovered and the standard proposes the recognition of the unexpected loss based on the historical experience of credit losses; and the current conditions and reasonable unsustainable forecast of the different quantifiable future events that could affect the amount of the future cash flows to be recovered from the IFC, which involves the preparation of estimates to be adjusted periodically based on the past experience. Likewise, for the IFC earning interest, it is required to determine how and when they are estimated to be recovered given that the recoverable amount must be stated at present value.

Mexican FRS C-19 “Financial instruments payable”- It establishes: a) the possibility of valuing, subsequent to its initial recognition, certain financial liabilities at fair value upon meeting certain exceptional conditions; b) valuing long-term liabilities at fair value at their initial recognition, considering its fair value over time when their term is greater than one year or if they do not meet the normal loan conditions; and c) upon restructuring the liability, without substantially modifying the future cash flows to settle it, the cost and commissions disbursed in this process shall affect the amount of the liability and shall be amortized using a modified effective interest rate, instead of affecting directly the net income or loss.

Mexican FRS C-20 “Financial instruments receivable”- It specifies the classification of financial instruments in assets based on the business model: a) for a profit generated from a contractual yield, previously specified in an agreement, the amortized cost is recognized; b) if they are also used to generate a profit based on their purchase and sale, they are recognized based on fair value. The embedded derivative instrument modifying the capital and interest cash flows of the host instrument shall not be bifurcated; everything shall be valued at fair value as if it were a trading financial instrument.

Mexican FRS D-1 “Revenues from clients’ contracts” - The most significant changes refer to the establishment of an income recognition model based on the following steps: a) control transfer, based on the opportunity to recognized income; b) identification of the different obligations to be complied with in an agreement; c) allocation of the transaction amount between the different obligations to be complied with based on the independent sales price; d) introduction of the concept of conditioned account receivable, upon fulfilling an obligation and generating an unconditional right to the consideration given that to have the consideration payment enforceable, only the lapse of time is required; e) the recognition of rights to collection, which in some cases, may have an unconditional right to the consideration before having fulfilled an obligation; and f) the valuation of the income considering aspects such as the recognition of important financing components, the consideration other than cash and the consideration payable to a client.

Mexican FRS D-2 “Costs from agreements with clients” - It separates provisions on recognition of costs from agreements with clients and provisions corresponding to recognition of income from agreements with clients and extends the scope to include costs related to the type of agreements with clients.

As of the date of this document, the Bank is in the process of establishing the effect of the new accounting principles on its financial information.

II. In accordance with the amendments to the General Provisions Applicable to Credit Institutions (the CUB) issued by the CNBV in DOF of January 4, 2018 and according to the Third and Fourth Transitory, the following NIFs will be effective as of January 1, 2019.

A brief description of the main changes and those that can be applied in advance are shown below:

Early recognition of changes in criterion B-6 Credit portfolio and D-2 Income statement.

The accounting criteria **B-6 Credit portfolio and D-2 Income statement**, to cancel, in the period in which they occur, the surpluses in the balance of provisions for loan losses, as well as to recognize the recovery of credits previously punished or eliminated against the provisions for loan losses.

These changes will be effective as of January 1, 2019. However, the Commission established the option to apply the changes, from the day following the publication of the provision, giving notice the exercise of the option to the National Banking and Securities Commission (CNBV) no later than 10 working days after the date on which the anticipated application of the aforementioned criteria will begin.

As indicated in the Relevant Events note, during 2Q 2018 BBVA Bancomer opted to recognize in advance the cancellation of surpluses and recoveries on loans written off or eliminated, in the line of “provisions for loan losses”.

III. New Financial Reporting Standards issued by the CINIF

The Mexican Financial Reporting Standards Board (Consejo Mexicano de Normas de Información Financiera, A.C.) (CINIF from its Spanish acronym) has issued the Mexican Financial Reporting Standards (Mexican FRS) and Improvements thereto as mentioned below:

Mexican FRS C-9 “Provisions, contingencies and commitments”- It shall be in effect for fiscal years beginning as of January 1, 2018, allowing its early adoption, provided it is done in conjunction with the initial adoption of Mexican FRS C-19 “Payable Financial Instruments”. It supersedes Bulletin C-9 “Liability, Provisions, Contingent Assets and Liabilities and Commitments”. First time adoption of this Mexican FRS does not generate accounting changes in the financial statements. Among the main aspects covered by this Mexican FRS are the following:

- It reduces its scope by relocating the topic related to the accounting treatment of financial liabilities in Mexican FRS C-19 “Financial instruments payable”.
- The definition of “liability” has been modified to eliminate the concept of “virtually unavoidable” and include the term “likely”.
- Terminology used across the standard is updated to uniform its presentation according to the other Mexican FRS.

Improvements to 2018 Mexican FRS

In December 2017, the CINIF issued a document titled “Improvements to Mexican FRS 2018”, which includes specific amendments to some existing Mexican FRS. The main amendments that give rise to accounting changes are as follows:

Mexican FRS B-2 “Statement of cash flows”- It requires new disclosures on liabilities associated to financing activities, whether they required or not the use of cash or cash equivalents, preferably with the reconciliation of opening and ending balances. This improvement comes into effect for fiscal years beginning as from January 1, 2018; early adoption is allowed. Accounting changes must be recognized on a retrospective basis.

Mexican FRS B-10 “Effects of inflation”- It requires disclosure of the percentage of accrued inflation for the last three years, which was the basis to rate the economic environment at which the entity operated in the current year as inflationary or non-inflationary, as well as the percentage of accrued inflation of three years, including two previous ones and the own period, which shall be the basis to rate the economic environment at which the entity shall operate in the following year. This improvement comes into effect for fiscal years beginning as from January 1, 2018; early adoption is allowed. Accounting changes must be recognized on a retrospective basis.

Mexican FRS C-6 “Property, plant and equipment” and Mexican FRS C-8 “Intangible Assets” – It establishes that a depreciation and amortization method of an asset based on the amount of income associated to the use thereof is not appropriate, given that such amount of income may be affected by factors other than the consumption pattern of the asset’s economic benefits. It clarifies the meaning of the concept asset’s consumption of future economic benefits. This improvement comes into effect for year beginning as from January 1, 2018 and the arising accounting changes must be recognized on a retrospective basis.

These improvement to the Mexican FRS did not generate significant effects in the consolidated financial statements of the Bank.

Improvements to Mexican FRS 2018 that do not generate change

Mexican FRS B-7 “Business Acquisitions”- This Mexican FRS establishes that in the process of business acquisition, the contingent liabilities of the business acquired must be recognized, when it is probable that there will be an outflow of economic resources in the future to liquidate said terms.

Mexican FRS B-15 “Conversion of foreign currencies”- Mentions that valuations of assets, liabilities, stockholders’ equity, income, costs and expenses are carried out in the functional currency, given that it is the basis of the economy of the entity.

Mexican FRS C-3 “Accounts receivable”- This Mexican FRS establishes only the valuation, presentaton and disclosure standards for the initial and subsequent recognition of accounts receivable that do not accrue interest, whether explicit or implicit. Additionally, it specifies that accounts receivable that accrue interest or without explicit interest, but that are long-term, are treated in FRS C-20, financial instruments to collect principal and interest.

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Financial report January–December 2018

BBVA Bancomer

Contact

Investor Relations

Phone: (52 55) 5621-2555

investorrelations.mx@bbva.com

<https://investors.bancomer.com>