Banco de México

Audited Financial Statements
31 December 2018 and 2017

Banco de México

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INDEPENDENT AUDITOR'S REPORT

To the Board of Governors
Banco de México

Opinion

We have audited the accompanying financial statements of Banco de México ("the Bank"), which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, as at and for the year ended 31 December 2018, have been prepared, in all material respects, in accordance with Banco de México Financial Reporting Standards (BdM FRS) and the financial reporting requirements established in the Banco de México Law and its Internal Regulations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mexico in accordance with the "*Código de Ética Profesional del Instituto Mexicano de Contadores Públicos*" ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the accompanying financial statements in accordance with BdM FRS and the reporting requirements of the Banco de México Law and its Internal Regulations, 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 in accordance with BdM FRS. Under the going concern basis of accounting, the Bank is assumed to continue as a going concern for an indefinite term.

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

Auditor's 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 auditor's 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, in accordance with BdM FRS and the financial reporting requirements established in the Banco de México Law and its Internal Regulations.

- Conclude on the appropriateness of management's use of the going concern basis of accounting established in the BdM FRS and, based on the audit evidence obtained, no material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability 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, where appropriate, including any significant deficiencies in internal control that we identify during our audit.

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

The partner in charge of the audit resulting in this independent auditor's report, is who signs it.

Our audit opinion and the accompanying financial statements and footnotes have been translated from the original Spanish version to English for convenience purposes only.

Mancera, S.C.
A Member Practice of
Ernst & Young Global Limited

C.P.C. Gabriel Alejandro Baroccio Pompa

Mexico City
March 12, 2019

Banco de México
Statements of Financial Position
31 December 2018 and 2017

Amounts in millions of Mexican pesos

Assets	2018	2017
International reserves (Notes 2d. and 4a.)	Ps. 3,434,883	Ps. 3,397,785
International assets	3,466,159	3,449,853
Liabilities to be deducted	(31,276)	(52,068)
Credit granted to the Federal Government (Note 2e.)	-	-
Government securities (Note 2f.)	-	-
Credit granted to banks and debtors from repo operations (Notes 2g. and 4b.)	366,819	288,980
International financial institutions (Notes 2h. and 4c.)	14,440	14,450
Fixed assets, furnishings and equipment (Notes 2i. and 4d.)	6,572	4,607
Other assets (Notes 2j. and 4e.)	27,454	25,100
Total assets	Ps. 3,850,168	Ps. 3,730,922

Liabilities and equity	2018	2017
Monetary base (Notes 2k. and 4f.)	Ps.1,674,211	Ps.1,545,934
Banknotes and coins in circulation	1,673,205	1,542,611
Bank deposits in current account	1,006	3,323
Federal Government current account deposits (Note 2l.)	365,979	304,464
Other Federal Government deposits (Notes 2m. and 4g.)	279,116	226,026
Monetary regulation liabilities (Notes 2n. and 4h.)	1,312,195	1,310,521
Monetary regulation deposits	1,083,532	1,149,540
Government securities	868,293	934,374
Banks	215,239	215,166
Monetary regulation bonds	105,120	105,085
Other deposits from banks and creditors from repo operations	123,543	55,896
Deposits from Mexican Oil Stabilization and Development Fund (Note 2o.)	276	27,415
International Monetary Fund (Notes 2p. and 4i.)	-	-
Special Drawing Rights (Notes 2q and 4j.)	77,925	79,841
Other liabilities (Notes 2r. and 4k.)	86,445	83,242
Total liabilities	3,796,147	3,577,443
Equity (Note 2s.):		
Capital	9,015	8,933
Capital reserves	144,443	384,559
Fiscal years operational loss	(99,438)	(240,142)
Other comprehensive income (Note 2u.)	1	129
Total equity	54,021	153,479
Total liabilities and equity	Ps. 3,850,168	Ps.3,730,922

	2018	2017
Memorandum accounts (Notes 2v and 4l)	Ps.28,889,684	Ps.27,589,327

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

Gerardo Mauricio Vázquez de la Rosa
Director General of Administration

Alejandro Díaz de León Carrillo
Governor

Víctor Moisés Suárez Picazo
Director of Accounting, Planning and Budgeting

Banco de México
Statements of Comprehensive Income
31 December 2018 and 2017

Amounts in millions of Mexican pesos

	2018		2017	
Finance income:				
International reserves		Ps.48,705		Ps.57,215
Credit granted to banks and debtors from repo operations:		21,752		25,099
Commercial banks	Ps. 71		Ps. 203	
Development banks	280		446	
Repos	21,401		24,450	
Other income		6,990		1,585
Total financial income		77,447		83,899
Financial expenses:				
Federal Government deposits		52,458		49,464
Monetary regulation liabilities:		98,982		88,658
Monetary regulation deposits:	87,291		79,942	
Government securities	70,575		65,329	
Banks	16,716		14,613	
Monetary regulation bonds	8,164		7,137	
Deposits from banks and creditors from repo operations	3,527		1,579	
Commercial banks	3,361		1,523	
Development bank	166		56	
Repos	-		-	
Mexican Oil Stabilization and Development Fund		749		220
International Monetary Fund		5,277		3,165
Special Drawing Rights		726		391
Other expenses		9,340		10,884
Total financial expenses		167,532		152,782
Net loss		(90,085)		(68,883)
Currency exchange effects		(2,734)		(164,678)
Financial loss		(92,819)		(233,561)
Operating expenses:				
Administrative expenses		3,798		3,580
Depreciation and amortization		598		512
Cost of banknotes and coins in circulation		3,071		2,628
Total operating expenses		7,467		6,720
Other income (net of other expenses)		848		139
Total net loss		(99,438)		(240,142)
Other comprehensive income		(128)		129
Comprehensive loss for the year		Ps.(99,566)		Ps.(240,013)

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

Gerardo Mauricio Vázquez de la Rosa
Director General of Administration

Alejandro Díaz de León Carrillo
Governor

Víctor Moisés Suárez Picazo
Director of Accounting, Planning and Budgeting

Banco de México

Statements of Changes in Equity
31 December 2018 and 2017

Amounts in millions of Mexican pesos

Item	Capital	Surplus	Net loss	Other comprehensive income	Net loss of prior year	Asset revaluation reserve	Foreign currency translation reserve	Financial network reserve	Capital reserve	Operating surplus	Total equity
As at 31 December 2016	**Ps.5,406**	**Ps. 3,608**	**Ps -**	**Ps. -**	**Ps. -**	**Ps. 268,002**	**Ps. -**	**Ps. 241**	**Ps.116,247**	**Ps. 321,653**	**Ps.715,157**
Hand over of operating surplus										(321,653)	(321,653)
Inventories reappraisal		(81)									(81)
Financial network transactions								69			69
Comprehensive loss for the year			(240,142)	129							(240,013)
As at 31 December 2017	**5,406**	**3,527**	**(240,142)**	**129**	**-**	**268,002**	**-**	**310**	**116,247**	**-**	**153,479**
Allocation of net loss to accumulated deficit			240,142		(240,142)						-
Loss amortized in the year					240,142	(240,142)					-
Inventories reappraisal		82									82
Financial network transactions								26			26
Comprehensive loss for the year			(99,438)	(128)							(99,566)
As at 31 December 2018	**Ps.5,406**	**Ps. 3,609**	**Ps. (99,438)**	**Ps. 1**	**Ps. -**	**Ps. 27,860**	**Ps. -**	**Ps. 336**	**Ps.116,247**	**Ps. -**	**Ps. 54,021**

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

Gerardo Mauricio Vázquez de la Rosa
Director General of Administration

Alejandro Díaz de León Carrillo
Governor

Víctor Moisés Suárez Picazo
Director of Accounting, Planning and Budgeting

Note 1.- Legal framework and nature of operations

Legal framework -

Banco de México (Bank or Central Bank) is a public and autonomous institution. Its objectives, functions, operations and management are regulated by the Banco de México Law (the Law), as required by Paragraphs 6 and 7 of Article 28 of the Political Constitution of the United Mexican States, and Banco de Mexico's Internal Regulations.

The Bank is a non-profit institution and shall hand over the full amount of its operating surpluses to the Federal Government once the required reserves prescribed by Law have been created.

General activities -

Management -

The Bank's operations and management are led, within their respective scopes of duty, by a Board of Governors and the Governor of Banco de México. The Board of Governors consists of the Governor and four Deputy Governors.

The Board members are appointed by the President of Mexico and approved by either the Senate or the Permanent Commission of the Congress. Board meetings must be attended by at least three Board members Board meetings are chaired by the Governor or, if the Governor is not present, by a Deputy Governor, in accordance with the procedures established in the Law. For a resolution to stand, it requires a majority vote. The Board member presiding over the session shall have the deciding vote in case of a tie. The Minister and the Deputy Minister of the Ministry of Finance and Public Credit (SHCP) may attend Board meetings, but cannot vote on resolutions. These officials may call Board meetings and suggest matters for discussion.

Objectives and functions -

The Bank is responsible for the provision of cash to the Mexican economy. To fulfill its statutory objective, the Bank's primary objective is procuring the stability of the purchasing power of the Mexican peso. In addition, the Bank shall promote a safe development of Mexico's financial system and encourage an efficient payment system. To this end, the Bank carries out the following functions:

a. Regulate the issuance and circulation of currency, foreign currency exchange, intermediation and financial services, and payment systems

b. Operate as the reserve bank and ultimate lender for credit institutions

c. Provide treasury services to the Federal Government and act as its financial agent

d. Act as an economic and financial advisor to the Federal Government

e. Participate in the International Monetary Fund (IMF) and other international financial cooperation institutions or those embodying central banks

f. Operate with the aforementioned organizations, referred in letter "e" above, central banks and other foreign legal entities that act as financial authorities

Activities -

In the normal course of its operations as a central bank, the Bank carries out the following activities:

a. Securities transactions.

b. Grant credit to the Federal Government (see Note 2e.), to credit institutions and also to the decentralized government agency called the Institute for Bank Savings Protection (IPAB).

c. Grant credit to the organizations referred in letter "f" above.

d. Make deposits in credit institutions or securities depositories, both in Mexico and abroad.

e. Acquire securities issued by international financial organizations or foreign entities, as set forth in Article 20, Section II of the Law.

f. Issue monetary regulation bonds.

g. Receive monetary bank deposits from the Federal Government, from Mexican and foreign financial entities, from public economic development trusts and from the entities referred in letter “k” below, from securities depositories, as well as public federal agencies, when required by law.

h. Receive monetary bank deposits from the organizations referred in letter "f" of the preceding section.

i. Obtain credit from the organizations referred in letter "f" of the preceding section and from foreign financial entities exclusively for purposes of foreign currency exchange regulation, and post cash or securities guarantees for the financial transactions carried out with such organizations as set forth in the Law for management of the international reserves.

j. Carry out transactions with foreign currency, gold and silver, including repos.

k. Act as trustee when required by law, or for those trusts that assist the Bank in fulfilling its mandate, or trusts that the Bank creates to comply with its labor obligations.

l. Receive deposits of securities or titles, either for safekeeping or as managed funds, from the entities referred in letter “g” and “h” above. The Bank may receive also other types of deposits from the Federal Government.

The Bank as financial authority -

The Bank as financial authority, as set forth in the Law, is authorized to issue regulations solely for monetary or exchange control purposes, to maintain the sound development of Mexico's financial system, the effective operation of the payment system, and the protection of public interest, without prejudice to any other regulations the Bank is authorized to issue under any other law in the scope of action of each one. The regulations issued by the Bank shall apply on a general basis, and may refer to one or several types of financial intermediaries, transactions, zones or locations. In addition, the Bank can impose fines on financial intermediaries for transactions or services that do not comply with the Law or with the Bank's regulations. The Bank can suspend a portion or the entirety of transactions with financial intermediaries that infringe the Law or any of its provisions.

With respect to foreign currency exchange, the Bank acts in accordance with the guidelines of the Exchange Commission, comprised of the SHCP Minister and Deputy Minister, any other deputy minister appointed by the SHCP Minister, the Governor of Banco de México and two Deputy Governors appointed by the Governor. The members of the Exchange Commission have no alternates and all resolutions require a majority vote, with at least one in favor by an SHCP representative. The Commission's sessions are chaired by the SHCP Minister; if the SHCP Minister is absent, sessions are chaired by the Governor; if both are absent, the session is chaired by the Deputy Minister appointed by the SHCP Minister. The person who chairs the meeting has the deciding vote in case of a tie.

The Exchange Commission makes decisions, among others, related to defining the criteria that the Bank will follow to issue directives for regulating transactions with foreign currencies, gold and silver carried out by credit institutions, securities brokers, currency exchanges, and other intermediaries that are part of a financial group.

Tax regime -

In accordance with Article 79, Section XXIII, and Article 86 of the Mexican Income Tax Law (MITL) effective in 2018, the Bank is not subject to the payment of income tax and is only obliged to withhold and remit income tax and obtain tax receipts when it makes payments to third parties and such third parties are required to issue such receipts under the MITL, and to issue and deliver tax receipts to the individuals to whom the Bank makes salary payments and to those who provide personal subordinated services to the Bank, on the date that the payment is made.

The Bank's compliance with its obligations with respect to value added tax, income tax, payroll tax and other local taxes, as well as the Bank's financial statements, are reviewed and audited by the public accounting firm appointed by the SHCP Minister and authorized by the Oversight Commission of the Supreme Federal Audit Office as the Bank's independent auditor.

Supreme Federal Audit Office and other audit authorities -

In accordance with the provisions found in specific laws, the Supreme Federal Audit Office and other audit authorities have the power to audit the Bank.

Note 2.- – Summary of significant legal and accounting practices for recognition, measurement, presentation and disclosure

a. Basis of presentation and disclosure -

The financial statements have been prepared in accordance with the financial reporting requirements set out in the Banco de México Law and its Internal Regulations, and with the Banco de México Financial Reporting Standards (BdM FRS)[1]. The Mexican Financial Reporting Standards Board (*Consejo Mexicano de Normas de Información Financiera, A.C.* or CINIF) has issued a favorable opinion stating that BdM FRS converges with Mexican Financial Reporting Standards (Mexican FRS), except for those situations where the Law establishes different requirements.

In accordance with Article 54 of the Law, the Bank's fiscal year runs from January 1 through December 31.

The financial statements and notes are presented in millions of Mexican pesos. For disclosure purposes, when there is reference to pesos or Ps, these are Mexican pesos; when there is reference to dollars, the amounts are in U.S. dollars or USD and when there is reference to UDI, it is indicating the Investment Units. The value of the UDI is linked to Mexico's inflation rate as determined by the Bank.

Foreign currency denominated balances are translated daily into Mexican pesos and are first translated into U.S. dollar using the exchange rates prevailing in international markets for currencies and metals. These U.S. dollar balances are then translated into Mexican pesos using the so-called FIX exchange rate determined and published by the Bank. Exchange gains and losses are recognized in profit or loss as they are accrue.

UDI-denominated balances are translated into Mexican pesos at the UDI value for the day and exchange gains and losses are recognized in profit or loss.

The Bank presents profit or loss in a statement of comprehensive income, since it has components of other comprehensive income (OCI).

b. Changes in Accounting Policies -

The CINIF issued new financial instrument standards effective for annual periods beginning on or after 1 January 2018. Respectively, the Bank updated its financial information standards, resulting in a reorganization of its financial instruments standards within BdM FRS.

The new BdM FRS for 2018 require the Bank to determine one or several business models to classify and manage its financial instruments.

[1] Set of guiding, conceptual and specific pronouncements issued by the Bank and approved by the CINIF that address the information presented in the Bank's financial statements and notes and that, through BdM FRS, establish the specific basis for measurement, presentation and disclosure of transactions, internal restructurings and other events that have an economic impact on the Bank and which must be recognized in the Bank's financial reporting.

BdM FRS C-20 *Financial Assets* and BdM FRS C-19 *Financial Liabilities* introduce the requirement for the Bank to present its loan balances and deposits from third parties at amortized cost[2] on the statement of financial position, including uncollected or unpaid accrued interest. The following exceptions apply: i) financial assets at fair value; ii) financial liabilities at fair value or nominal value at initial recognition.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; i.e. between independent, willing and informed parties in a free market, which means that the fair value is the mark to market value.

For comparative purposes, the balances of the statement of financial position from 2017 were modified to recognize amortized cost as follows:

Statements of financial position	Amounts as originally reported 2017	Increase/ (decrease)	Adjusted amount 2017
Assets			
Credit granted to banks and debtors from repo operations	288,959	21	288,980
Other assets	25,132	(32)	25,100
		(11)	
Liabilities			
Federal Government current account deposits	301,644	2,820	304,464
Federal Government deposits	224,859	1,167	226,026
Monetary regulation liabilities	1,310,293	228	1,310,521
Monetary regulation deposits	1,149,367	173	1,149,540
Government securities	934,374	-	934,374
Banks	214,993	173	215,166
Other deposits from banks and creditors from repo operations	55,841	55	55,896
Deposits from Mexican Oil Stabilization and Development Fund	27,382	33	27,415
Other liabilities	87,501	(4,259)	83,242
		(11)	

[2] In the case of financial assets, the amortized cost is net of the Expected Credit Loss (ECL) allowance, if applicable. In the case of Held-For-Trading financial instruments, the recognition of an ECL is not necessary because the associated risk has already been included in the fair value. In addition, ECLs are not created for internal credit transactions to the extent that these are secured through deposits in the Bank or through securities pledged as collateral.

c. Business models -

As a result of the adoption of the new financial instruments BdM FRS, the Bank classified its investments in financial instruments based on a business model rather than the specific intent for which certain financial instruments were acquired.

The business model is based on the overall way the Bank manages its financial instruments, which are presented in the statement of financial position, in order to accomplish the Bank´s priority objective and purposes, on the lookout for the efficiency of resources rather than generating cash flows or holding certain types of instruments to maturity.

The Bank has two business models:

Under the first business model, the Bank classifies its financial assets as Held-for-Trading Financial Assets, comprised of investments that are managed according to the Bank's objectives rather than to obtain a profit from the sale or to collect principal or interest. This is the case even when the Bank collects contractual cash flows or holds certain instruments to maturity. Held-for-trading financial assets are stated at market value.

Under the second business model, the Bank classifies its instruments as Financial Assets, which mainly derive from funding transactions that the Bank carries out to maintain the Mexican peso's purchasing power, as well as to promote growth of the financial system, according to the Bank's objectives and mandates. Financial assets are not traded and, although they generate contractual cash flows, the Bank's objective for holding these assets is not the collection of contractual cash flows. Financial assets are stated at amortized cost, except when the Bank irrevocably designates them at initial recognition as at market value, provided that this prevents accounting mismatch.

d. International reserves -

The international reserve helps maintaining the Mexican peso's purchasing power and is comprised, in accordance with Articles 19 and 20 of the Law, as follows:

- Foreign currencies and gold, owned by the Bank, which are unencumbered and unrestricted

- The debit balance between Mexico's IMF quota and the Bank's IMF liability (IMF Reserve Tranche)

- Foreign currencies obtained from financing derived from exchange regulation purposes, which are provided by international financial cooperation organizations, central banks and other foreign legal entities that act as financial authorities

Foreign currencies include:

- Banknotes and coins from foreign economies

- Deposits, titles, securities and other debt obligations payable outside of Mexico, considered to be first rate in international markets, denominated in foreign currency, issued by foreign governments or by international financial organizations or entities, with maturities of no more than six months or highly liquid securities

- Loans extended to central banks, payable within six months and whose payments are current and performing, and

- IMF Special Drawing Rights (SDR)

The reserve amount excludes receivable currency deposits from Mexican peso in buy-sell transactions, and the Bank's currency and gold liabilities are deducted, except for those with maturities of more than six months and the above-mentioned loans.

Hence, the international reserve is primarily comprised of investments in foreign securities and titles represented by highly liquid instruments measured at the market value of the amount paid for the instrument. This market value, as well as the value of security deposits measured at market value (i.e. nominal value), are updated daily. These instruments may not be restricted and are presented net of the Bank's currency obligations, comprised of liabilities payable within six months, including sales transactions.

The effect of the market value restatement of foreign-currency denominated titles and securities, as well as uncollected and unpaid accrued interest on deposits, titles, securities and obligations that bear interest at market rates, are recognized in profit or loss for the year.

e. Credit granted to the Federal Government -

In accordance with Articles 11 and 12, Section IV, of the Law, the Bank may grant credit to the Federal Government only through the current account that the Federal Treasury hold at the Bank. The debit balance of this current account cannot exceed 1.5% of the total expenditure of the Federal Government as set out in the Federal Expense Budget for the corresponding year, excluding the amounts that have been earmarked for Federal Government´s internal debt payments except when, in rare circumstances, there is a significant increase in the temporary differences between public revenue and public expenditure. Securities issued by the Federal Government owned by the Bank are not considered in this calculation.

If the debit balance of the account exceeds the aforementioned limit, the Bank must issue securities backed by the Federal Government on its behalf for the excess amount.

As a result, this line item presents the credit that could be extended to and payable by the Federal Government. The credits granted are stated at amortized cost and bear interest at market rates, and interest is recognized in profit or loss as it accrues. The Bank has not granted credit to the Federal Government.

If the Treasury's current account reflects a credit balance, this amount is presented as part of the *Federal Government current account deposits*.

f. Government securities -

In accordance with Article 9 of the Law, Federal Government securities acquired by the Bank are offset with deposits, mandatorily held to maturity, made with the Bank by the Federal Government with the proceeds from the allocation of the referred securities (monetary regulation deposits). The amounts, terms and interest rates of these deposits are the same as those of the securities acquired by the Bank. These deposits may not be withdrawn until the associated securities mature; i.e. the Federal Government cannot use or spend the deposits before the maturity date.

As a result, this line item shows the net debit balance calculated as the difference between the government securities owned and the monetary regulation deposits held. When this line item has a credit balance, it is presented as part of the *Government Securities* in *Monetary Regulation Liabilities* (see Note 2n).

For auctions of Government securities sold for monetary regulation purposes, the Bank carries a net credit balance for the amount of monetary regulation deposits exceeding the amount of the Government securities owned.

The management of Federal Government securities and the creation of the associated deposits are carried out for monetary regulation purposes. These deposits and securities are measured daily at their market values.

g. Credit granted to banks and debtors from repo operations -

This line item consists of credits and loans granted to banks in accordance with Article 7, Section II of the Law, as well as the net debit balance of the accounts under *Bank deposits in current account*, if applicable.

This line item also includes the Bank's assets under repo agreements. Under these agreements, the Bank, in accordance with Circular 3/2012, is the repo seller in transactions carried with Mexican financial institutions, as stated in Article 7, Sections I, II and X, Articles 14, 16, 24, 26 of the Law.

Securities under repo agreements and the liability associated with the securities that will be delivered to the buyer when the term expires are recognized at market value on initial acquisition and are restated to mark to market on an ongoing basis, using prices supplied by an independent price provider. These two balances and the corresponding restatement effects are offset both in the statement of financial position and in profit or loss.

Credits and loans are presented at amortized cost and bear interest at the contractually agreed rates. Interest and premiums from repos are recognized in profit or loss as they accrue.

In addition, this line item includes the offsetting balances of credits and deposits arising from the Mexican weighted interbank interest rate (TIIE) rate-setting process. Those credits and deposits bear interest and are stated at amortized cost.

h. International financial institutions -

This line item is comprised of contributions to international financial organizations (excluding the IMF) that were made on behalf of the Federal Government before the Bank became an autonomous body. These amounts are recognized in either Mexican pesos or foreign currencies. Mexican peso-denominated contributions are restated based on the foreign currency equivalent determined on the day they were made, and the related exchange gains and losses are recognized in profit or loss.

i. Fixed assets, furnishing and equipment -

The fixed assets, furnishing and equipment are recognized at cost, plus costs incurred to build or enhance assets owned by the Bank, or plus costs incurred to replace or enhance the asset leased by the Bank.

Depreciation is calculated on a straight-line basis applying the rates established in the MITL. Special machinery and equipment are depreciated over the estimated useful lives of the assets.

As of 1 January 2013, the Bank ceased restating the acquisition cost of its investments in fixed assets, which through that date were restated for inflation based on the National Consumer Price Index. The inflation restatement increment recognized through 1 January 2013 as part of the value of the investment will continue to be depreciated following the above-mentioned policies.

Assets that the Bank continues to use are not subject to impairment. Impairment is only calculated when the Bank disposes of or gives away the asset.

j. Other assets -

This line item consists primarily of the following:

- Inventories related to banknote printing and acquisition of coins - These inventories include raw materials for the issuance of banknotes and coins, the latter of which is recognized at acquisition cost (minting cost), as well as the storage of work in progress and finished banknotes, measured using a standard cost method based on production orders. Inventories are restated at replacement value; i.e. their net realizable value, corresponding the price of the last purchase. The restatement effect is recognized in equity under *Inventories reappraisal*. In accordance with Article 56 of the Law, costs incurred in printing banknotes and acquiring coins are recognized in profit or loss at the time the currency is put into circulation.

- Assets designated as cash flow hedges. These assets are denominated in a variety of currencies. Similarly to other foreign currency-denominated assets, they are translated into Mexican pesos after first being translated into U.S. dollars at the prevailing exchange rate using the "FIX" exchange rate published by the Bank. In accordance with BdM FRS C-10 *Derivative Financial Instruments and Hedging Relationships*, when an asset is classified as a cash flow hedge, gains or losses arising from mark to market valuation are recognized as part of *OCI* in equity, until it is realized.

- IMF fees paid in advance - The unaccrued amount of the annual fee that the Bank pays in SDRs to the IMF at the time it ratifies its Flexible Credit Line (FCL)[3]. This amount is translated into Mexican pesos at the prevailing exchange rate on the date of the transaction and is charged to profit or loss as it accrues.

- Assets under currency hedge auctions - In 2017, the Exchange Commission, aiming at foster an improved exchange market, announced that it had ordered the Bank to implement a program of currency hedges payable at maturity for gains and losses against the Mexican peso. This program allows the Bank to offer foreign currency risk hedges without the need to tap into its international reserves. A debit/(credit) balance corresponds to the accrued unpaid amount in Mexican pesos due from/(due to) the banking institutions and due from/(due to) the Bank arising from the daily measurement of open currency hedges assigned thereto under the auctions established in Circular 3/2017 and its amendments in Circular 5/2017 and 6/2017. Gains or losses arising from the valuation of foreign currency hedges are recognized in profit or loss as accrued.

[3] Credit facility approved in March 2009 by the IMF Executive Board to qualified countries with strong macroeconomic fundamentals and consistent policy track records for economic growth and stability. Qualified countries may access financial resources in order to face adverse economic conditions.

Since the IMF incurs opportunity costs to maintain resources available under the FCL, qualified countries must pay an annual commitment fee to the IMF.

- Other equity investments - Equity investments that the Bank has acquired in other entities in accordance with Article 63, Section III of the Law, which are carried at cost[4]. Dividends earned from equity investments are recognized in profit or loss at the time they are paid.

- Loans granted to other central banks - Long-term financing granted to other central banks in accordance with Article 7, Section III, of the Law. These accounts are current and performing. The loans bear interest at a contractually agreed rate. Interest is recognized in profit or loss as accrued.

- Intangible assets - Intangible assets comprise software and the Bank's revocation rights over the "Betlemitas Cultural and Educational Center Trust"[5] as the trustee. The revocation right is quantified based on the carrying amount of the property entrusted by the Bank, located at Tacuba No. 17, Centro Histórico, Mexico City. The revocation right is not subject to amortization and is therefore carried at historical cost. Software is recognized at cost and depreciated based on its estimated useful life.

- Interest rate swaps - The present value of the expected cash flows on maturity of the Bank's interest rate swaps, acquired in November 2008 from several banks in accordance with the guidelines of Circular 56/2008. These swaps matured in November 2018.

k. Monetary base -

The Bank has the sole right to put into circulation banknotes and coins, and is required to accept Mexican pesos on demand, regardless of the condition of the banknote or coin, in exchange for new currency. Accordingly, this line item comprises the total amount of banknotes and coins in circulation, recognized at nominal value plus, and if applicable, the net credit balance of current account deposits.

l. Federal Government current account deposits

The balance of the Treasury's Mexican peso-denominated current account in accordance with Article 12 of the Law. These funds can only be moved under direct instruction from the Federal Treasurer, except for the payments that the Bank must make to serve the Federal Government's internal debt. These deposits are stated at amortized cost and bear interest at market rates, which is recognized in profit or loss as it accrues.

m. Other Federal Government deposits -

This line item includes term deposits from the Federal Government and the foreign currency balance of the Treasury's current account which the Bank holds in accordance with Article 7, Sections VII y XII, of the Law. These deposits are stated at amortized cost and bear interest at market rates, which is recognized in profit or loss as it accrues.

[4] Equity investments denominated in foreign currencies are carried at their equivalent in Mexican pesos as at 31 December 2015.

[5] Revocable trust aimed at creating and operating a cultural and educational space dedicated to monetary, financial and economic matters.

n. Monetary regulation liabilities -

This line item comprise liabilities assumed with respect to transactions that the Bank carries for monetary regulation purposes. These liabilities include:

- The net credit balance resulting from the difference between the Government securities held and Federal Government deposits maintained at the time of acquisition (see Note 2f). This difference results from the sale of Government securities by the Bank through ordinary and extraordinary auctions. Both the Government securities and the associated deposits are measured daily at their market value, supplied by an independent price provider. Restatement effects are recognized in profit or loss.

- Mandatory indefinite term deposits from banks with the Bank in accordance with Article 28 of the Law, and in accordance with Circular 9/2014, and its amendment through Circular 11/2014. These deposits are stated at amortized cost and are interest bearing. Interest is recognized in profit or loss as it accrues.

- Monetary regulation bonds (BREMS) issued by the Bank and acquired by banks as an alternative mean to comply with the requirement of maintaining monetary regulation deposits with the Bank (which may be comprised of cash, securities or both). These bonds are acquired exclusively through auctions and are settled through the mandatory indefinite term deposits with the Bank of the acquiring banks. These bonds can only be allocated to repos between the above-mentioned entities and the Bank or between the banks themselves. Accordingly, BREMS are not traded in secondary markets and bear interest at market rates, which is recognized in profit or loss as it accrues.

- Deposits from banks for open market short-term operations and the Bank's accounts payable under repo agreements where the Bank acts as the seller. These deposits are stated at amortized cost and are interest bearing. Interest and repo premiums are recognized in profit or loss as they accrue.

o. Deposits from Mexican Oil Stabilization and Development Fund -

Correspond to the deposits in Mexican pesos that the Mexican Oil Stabilization and Development Fund[6] holds with the Bank. These deposits are stated at amortized cost and bear interest at market rates, which is recognized in profit or loss as it accrues.

p. International Monetary Fund -

This balance, expressed in Mexican pesos, represents the credit that the Bank has with the IMF in SDR, deducted from contributions paid. The deposits and contributions are recognized in Mexican pesos and are restated based on the SDR equivalent determined on the day they were made, and the related exchange gains and losses are recognized in profit or loss.

q. Special Drawing Rights -

Special Drawing Rights allocated to the Bank based on its IMF quotas. SDR allocations bear interest at market rates, which is recognized in profit or loss as it accrues.

[6] Public state trust created in 2014 to receive, manage and distribute federal revenue from assignments and contracts granted for oil and hydrocarbon exploration and extraction activities, net of the related taxes.

r. Other liabilities -

This line item includes deposits hold by the Bank in accordance with Article 7, Sections VII, VIII and XII, of the Law, as follows:

- Deposits from entities and financial international organizations - Represent deposits from entities and financial international organizations (excluding IMF) in both Mexican pesos and foreign currencies. Foreign currency denominated deposits are translated into Mexican pesos as described in Note 2a.

- Labor trust deposits - Funds in irrevocable trusts created by the Bank to meet its retirement benefit obligations as per its General Labor Conditions. These deposits bear interest at market rates, which is recognized in profit or loss as it accrues.

- Cash deposits from trusts - Deposits from trusts in which the Bank is the trustee.

s. Equity -

In accordance with Article 53 of the Law, the Bank must preserve, whenever possible, the actual value of the sum of its capital plus reserves, and increase such value considering the Gross Domestic Product growth in real terms. The Bank may only create additional reserves on revaluations of assets when agreed and authorized by the SHCP.

Equity includes *Inventories reappraisal* originated from its measure at replacement value, as stated in Article 56 of the Law.

The Capital reserves are as follows:

- Asset revaluation reserve- This line item includes the amounts that the Board of Governors, in accordance with Article 46, Section XV, of the Law, decides to allocate from the operating results of the year to this reserve deducted from amounts it decides to use for other purposes.

- Foreign currency exchange reserve - As per resolutions adopted by the Board of Governors, should the Bank report a profit for the month and such profit include a gain derived from the translation into Mexican pesos of foreign currencies and metals, the accumulated gain is transferred to the foreign currency exchange reserve, provided that this does not result in a loss being recognized in the statement of comprehensive income. Amounts in this reserve can be used to cover losses in subsequent months of the same fiscal year. Before approving the annual financial statements, the Board of Governors must determine the allocation of the year-end reserve balance, if applicable.

- Financial network reserve - The reserve created by the Bank with authorization from the SHCP with the contributions received from public and private entities in the Mexican financial system, as well as from federal agencies and organizations that directly or indirectly use the Bank's technological infrastructure to carry out, pay, and verify transactions (Financial network). These funds are used for the maintenance, upkeep and operation of this infrastructure.

- Capital reserve - The reserve created from the operating results for the year to maintain the Bank's capital and reserves up to date in accordance with Article 53 of the Law.

t. Fiscal year operating surplus -

In accordance with Article 55 of the Law, the Bank must hand over any and all operating surpluses to the Federal Government once the required reserves have been created. These funds are delivered no later than the last day of April of the immediately subsequent fiscal year.

The Bank's operating results arise primarily from the following financial and foreign exchange factors:

Financial factors:

The net acquisitions of foreign currencies from the Federal Government and Petróleos Mexicanos represent an increase on international reserves. These acquisitions usually generate cash flows of Mexican pesos that exceed the demand for banknotes and coins. To remove excess liquidity, the Bank implements sterilization measures aligned with its objective of cash provision while maintaining the Mexican peso's purchasing power. These sterilization measures result in an increased financial burden for the Bank, as it increases its debit position in Mexican pesos with banks.

In addition, when there is a negative spread between external yields on investments in international assets and internal yields on Mexican peso-denominated liabilities, there is downward pressure on the Bank's financial results. This negative interest rate spread results from the following:

- The international reserve, as established in Article 20 of the Law, is invested into high-quality financial instruments in international markets. These instruments must have maturities of no more than six months or must be highly liquid, and thus bear interest at the prevailing market interest rates for these kinds of instruments.

- In accordance with Article 8 of the Law, the Bank issues Mexican peso-denominated debt instruments with interest rates obeying prevailing domestic money market conditions.

Foreign exchange factors:

Gains and losses from the daily translation into Mexican pesos of foreign currencies and metals using the "FIX" exchange rate set and published by the Bank. When the actions taken by the Bank to preserve the Mexican peso's purchasing power result in an appreciation against the U.S. dollar, the Bank incurs in losses; a devaluation of the Mexican peso against the U.S. dollar results in a profit for the Bank.

u. Other comprehensive income -

The Bank's components of other comprehensive income consist of the accrued unrealized gain from the mark to market measurement of assets that the Bank has designated as cash flow hedges (see Note 2j.).

v. Memorandum accounts -

The Bank uses memorandum accounts to control: i) authorized issuances of Government securities; ii) the issuance and inventory (at face value) of banknotes and coins; iii) managed Savings Protection Bonds; iv) outstanding external public debt bonds issued by the Federal Government; v) Monetary Regulation Bonds issued by the Bank and; vi) the net assets of the trusts in which the Bank is the trustee.

w. Calculation of expected credit losses -

To determine the recoverability of accounts receivable, the Bank uses the following indicators:

- Evidence of significant financial difficulty of the borrower;
- Amendments to the original contractual terms and conditions in response to financial or legal issues of the borrower;
- High probability of bankruptcy, suspension of payment, or debt restructuring of the borrower; and
- Breach of contract, such as default on principal or interest payments

To calculate its expected credit losses related to accounts receivable, the Bank determines the following:

- The probability of default, based on the Bank's internal historical credit loss data and past due receivables; and
- The exposure at default, which corresponds to the outstanding portion or the entirety of accounts receivable, considering current circumstances that must be adjusted with reasonable and sustainable forecasts of different future quantifiable events.

As at 31 December 2018 and 2017, there are no significant accounts receivable for which the Bank would need to recognize an expected credit loss.

x. Commitments and contingent liabilities -

In accordance with Article 63, Section I, of the Law, the Bank cannot provide guarantees except, as established by Article 7, Section IX, of the Law, in cases of financial transactions carried out for international reserve management. Contingent liabilities arise from the Bank's labor obligations.

As at 31 December 2018, the Bank is party to two labor lawsuits that may require an eventual disbursement to settle them in case of a ruling against the Bank. At the reporting date, the Bank has been unable to reasonably quantify the probable outflow of resources or the likelihood of an unfavorable ruling, since the legal proceedings are still ongoing. It is worth noting that, even in a worst-case scenario, the effect of an unfavorable ruling against the Bank would not be material.

y. Labor obligations -

In accordance with Article 7, Section XI of the Law, the Bank can act as a trustee for the trusts created by the Bank to comply with its labor obligations.

Based on the above, the Bank has created irrevocable trusts, in which it acts as the trustor and the trustee, with the purpose of covering its labor obligations related to pensions, retirement benefits, seniority premiums and post-employment benefits in accordance with the Bank's General Labor Conditions. Accordingly, plan settlements are paid from these trusts, which have been funded by the Bank to cover these labor obligations. As a result, the Bank does not present assets and liabilities arising from labor obligations in its financial statements.

In accordance with its General Labor Conditions, the Bank prepares actuarial studies to calculate its obligations arising from pensions, seniority premiums and post-employment benefits. As the Trustor of the irrevocable trusts, the Bank is required to update its actuarial estimates at least every five years. Actuarial studies must be reviewed by an independent expert. The independent experts have concluded that the Bank's irrevocable trusts have the necessary funds to meet its labor obligations in the future.

Note 3.- – Risk management

The Central Bank is exposed to a variety of risks factors inherent on its operations. These risks are both financial and non-financial in nature. Financial risks arise from changes on these risks factors that might impact the financial results of the Central Bank. Non-financial risks relate primarily to situations that could affect the Central Bank's ability to appropriately execute its processes due to internal causes (operational risks) or external causes (security risk), due to controversies arising from the interpretation and compliance with applicable laws and regulations (legal risk), and due to circumstances, that could affect the Bank's credibility or reputation (reputational risk).

The Bank's exposure to financial risk arises primarily from the transactions with financial instruments, specifically from the management of its international reserves, and also from domestic transactions carried out for monetary policy or financial stability purposes.

I. Investment of international reserves

The financial risks related to the investment of the international reserves are managed through the application of investment and risk guidelines, in particular:

- The investment of international reserves on eligible currencies
- The investment of international reserves on eligible financial instruments, as well as the minimum required amount on highly liquid assets
- The use of benchmark portfolios in order to assess performance and market risk exposures of the investment portfolios
- The methodologies used to assess and control market risk exposure
- The credit risk management criteria applicable to eligible financial instruments, counterparty selection policies and credit risk exposure limits

a. Market risk[7]

In the case of the international reserves owned by the Central Bank, the primary source of market risk is related to the fluctuations on the exchange rates used to keep accounting records in domestic currency of the financial instruments denominated in foreign currencies. Therefore, the Bank would report a loss when the Mexican peso appreciates against the currencies in which the international reserves are invested; i.e. the Bank receives less Mexican pesos per foreign currency unit. However, these losses are not realized until the currencies are actually exchanged for Mexican pesos. The Bank recognizes such unrealized losses in its statement of comprehensive income because the presentation currency is the Mexican peso. In view of the fact that the main objective of the international reserve is to preserve the purchasing power of the Mexican peso by offsetting the imbalances between the country's foreign currency inflows and outflows, this risk cannot be hedged[8]. In order to ensure that the Bank has sufficient operating leeway to use the currencies in its international reserves, the Bank assumes this foreign currency risk.

The factors that give rise to market risk exposure from the investment of the international reserves are the U.S. dollar exchange rates for each eligible currency, U.S. dollar price of gold, and the interest rates associated with eligible financial instruments. According to the investment and risk guidelines applicable, this market risk exposure is measured using the Value at Risk (VaR) method[9]. In particular, market is risk is managed and controlled based on benchmark portfolios and VaR limits. Investments that give rise to market risk are identified, assessed and monitored on an ongoing basis. VaR is measured using market price indicators and standard methodologies.

b. Credit risk[10].

Under the current investment and risk guidelines, the Bank's credit risk exposure derived from the investment of its international reserves is managed and controlled by establishing a minimum credit rating requirement for counterparties and issuers. In addition, credit risk is managed by assigning limits on the credit exposures and terms of the transactions. These limits are determined by taking into account factors that supplement the credit ratings. Investments that give rise to credit risk are identified, assessed and monitored on an ongoing basis.

c. Concentration risk[11].

Concentration risk arises when the international reserves are exposed to a single risk factor or when the international reserves are invested in a limited number of counterparties. This risk is managed and controlled through the use of diversified portfolios with different risk factors and exposure to varying types of eligible financial instruments, and by limiting exposures to specific counterparties or issuers.

[7] Market risk reflects the potential loss in the value of a financial instrument due to fluctuations in market prices.

[8] A hedging strategy may include Mexican peso exchange rate forward contracts for the currencies in the international reserves. However, such strategy would require the Central Bank to give up the ownership of the currencies in the international reserves, as these would be committed at a future date and therefore, such transaction would result in a reduction to the international reserves.

[9] Value at Risk is an estimate of the maximum possible loss in a financial instrument portfolio with a certain time horizon and confidence level, based on identified market risk factors.

[10] Credit risk reflects the potential loss due to a counterparty default, (i.e. if such counterparty fails to meet its contractual obligations).

[11] Concentration risk reflects the potential loss due to a lack of diversification in the Bank's exposure among the eligible counterparties or issuers.

II. Monetary policy

Open Market Operations for monetary policy purposes are carried out through deposits and liquidity auctions. In these Open Market Operations, the Bank provides all the required liquidity to the financial institutions, in order to offset potential overdraft costs due to factors affecting the monetary base. The financial institutions that participate on these auctions may formalize such transactions through a collateralized loan or repo transaction, depending on the financial asset pledged as collateral. These transactions are collateralized in order to mitigate the credit risk inherent in these operations, as this represents the most relevant financial risk.

If the liquidity auction is documented as a collateralized loan, the principal amount must be guaranteed by the monetary policy long term mandatory deposits that the financial institutions maintain at the Central Bank, the U.S. dollar deposits, as well as the deposits used to determine the TIIE. For repo transactions, the financial instruments that can be used as collateral are government securities, BREMS issued by the Bank, and Savings Protection Bonds (BPA) issued by the IPAB. In these transactions, the loan principal granted by the Bank must be covered by the market value of the eligible collateral which is multiplied by a discount factor. These discount factors are calculated based on standard methodologies in order to ensure that, should the debt instruments be forced to be sold due to default in a repo transaction, it would be highly probable that Bank would not incur into a financial loss[12].

III. Financial stability

As a preventive measure that promotes the proper operation of the financial markets and the payment system, in October 2008, the Bank established a standing liquidity facility to provide to the commercial banks the amount of liquidity they required as long as it is guaranteed by eligible instruments. The financial institutions requesting this liquidity must submit a letter signed by their General Director describing the liquidity issues they face and formalize a legal agreement with the Bank.

The commercial bank requesting this facility may obtain the funds through any of the following transactions or a combination thereof: (i) term loan transactions secured by the monetary policy long term mandatory deposits that the commercial bank holds with the Bank or the U.S. dollar deposits with the Bank; or (ii) repo transactions on eligible debt instruments in accordance with the applicable regulations[13].

In order to mitigate its exposure to financial risk arising from the transactions related to this standing liquidity facility, the Bank applies the same risk management guidelines and procedures it applies for the Open Market Operations through the repo transactions, where the market value of collateral is multiplied by a discount factor. The discount factors applied to the financial instruments issued by entities with lower credit ratings or exposed to a higher market risk are more restrictive.

[12] The discount factors are expressed in percentage terms. Its estimations depend on the maturity of the repo transaction as well as the market risk characteristics of the financial instrument used as collateral.
[13] Circular 10/2015 issued by the Bank on 11 May 2015.

Note 4.- – Analysis of specific line items and exchange rates for the year

a. International reserves -

An analysis of the Bank's international reserves as at 31 December 2018 and 2017 is shown below:

	2018	2017
Deposits in foreign banks	Ps. 1,421,753	Ps. 1,615,844
Notes	1,048,766	869,832
Discounted instruments	766,566	782,320
Gold	96,982	98,119
SDRs	74,867	75,694
IMF reserve tranche (Notes 2d and 4i)	42,026	25,891
IMF loans	5,884	7,863
Interest receivable from foreign entities and organizations	2,607	972
Other	6,708	(26,682)
International assets	3,466,159	3,449,853
Less:		
Deposits received with maturities of less than six months	30,938	51,883
Creditors from foreign exchange purchases (Note 2d.)	6	8
Other	332	177
Liabilities with maturities of less than six months	31,276	52,068
International reserves	Ps. 3,434,883	Ps. 3,397,785

b. Credit granted to banks and debtors from repo operations -

An analysis of this line item as at 31 December 2018 and 2017 is as follows:

	2018	2017
Assets under repos	Ps. 355,399	Ps. 278,959
Loans to banks		
Development banks	11,222	10,021
Commercial banks	201	-
	11,423	10,021
Bank deposits in current account	-	-
TIIE rate-setting loans	1,156	2,511
TIIE rate-setting deposits	(1,159)	(2,511)
	(3)	-
	Ps. 366,819	Ps. 288,980

An analysis of securities received and deliverable from repos related to open market operations as at 31 December 2018 and 2017 is as follows:

	2018		2017	
	Securities received	Securities deliverable	Securities received	Securities deliverable
BPAS	Ps.171,458	(Ps.171,458)	Ps.155,577	(Ps.155,577)
BONOS	123,150	(123,150)	63,356	(63,356)
CETES	30,881	(30,881)	-	-
BREMS R	21,274	(21,274)	22,207	(22,207)
BONDES D	15,933	(15,933)	37,994	(37,994)
UDIBONOS	1,311	(1,311)	5,871	(5,871)
	Ps.364,007	(Ps.364,007)	Ps. 285,005	(Ps.285,005)

Circular 10/2015, issued by the Bank, establishes guidelines for the following aspects:

- Granting of loans secured by monetary regulation deposits and/or U.S. dollar deposits held by the Bank

- The catalog of eligible instruments for repos

- When credit institutions have insufficient eligible instruments for repos to secure their financing transactions, they may secure such financing with their portfolio of loans granted to state and/or local governments, with the associated cash flows being transferred to the Bank. The portfolio must be at least equal to the principal and interest of the requested financing, and shall be subject to application of a discount rate

- For repos, the related securities issued by commercial banks and state-owned or decentralized government agencies must have at least two AA credit ratings or equivalent ratings. These ratings must be given by a credit rating agency authorized by the CNBV.

c. International financial institutions -

An analysis of this line item as at 31 December 2018 and 2017 is as follows:

	2018	2017
Inter-American Development Bank (IADB)	Ps. 10,949	Ps.10,955
International Bank for Reconstruction and Development (IBRD)	2,731	2,733
International Finance Corporation (IFC)	325	325
Inter-American Investment Corporation (IIC)	294	295
Caribbean Development Bank (CDB)	104	104
Common Fund for Commodities (CFC)	20	21
International Development Association (IDA)	17	17
	Ps. 1 4,440	Ps.14,450

d. Fixed assets, furnishing and equipment -

An analysis of this line item as at 31 December 2018 and 2017 is shown below:

	2018	2017	Annual depreciation rate (%)
Buildings	Ps.5,665	Ps.4,864	(useful life)
Special equipment	2,431	1,707	(useful life)
Machinery and equipment	2,156	1,477	10
Air transport equipment	1,315	398	(useful life)
Computer and electrical equipment	618	497	30
Office furniture and equipment	239	231	10
Automotive equipment	172	169	25
Communications equipment	18	22	10
	12,614	9,365	
Accumulated depreciation	(7,765)	(7,257)	
	4,849	2,108	
Land	810	810	
Acquisitions in process	760	1,048	
Construction in process	153	641	
	Ps.6,572	Ps.4,607	

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

	2018	2017
Charged to operating expenses	Ps.423	Ps.384
Charged to banknote printing inventories	125	104
Charged to expenses and recovered through assets acquired for the Mexican Oil Stabilization and Development Fund and the Financial Network	122	20
	Ps.670	Ps.508

Impairment loss for long-lived assets disposed of in 2018 was Ps. 3[14], of which Ps. 2 is recognized as part of operating expenses in profit or loss. The remaining amount, which is related to assets used in the banknote printing process, is included as part of cost of banknotes and coins brought into circulation.

[14] In 2017, impairment losses totaled Ps. 2, of which Ps. 1 corresponds to assets used in banknote printing; therefore, this impairment loss was recognized as part of cost of banknotes and coins brought into circulation in 2017, and the remaining amount was recognized as part of operating expenses for the year.

e. Other assets -

An analysis of this line item as at 31 December 2018 and 2017 is as follows:

	2018	2017
Inventories related to banknote printing and acquisition of coins	Ps. 5,703	Ps. 3,986
Assets designated as cash flow hedges	4,206	4,140
IMF fees paid in advance	3,861	4,896
Assets under foreign currency hedge auctions	2,330	-
Other equity investments	762	762
Loans granted to other central banks	737	738
Intangible assets	586	580
Silver	516	631
Prepaid expenses	61	1,350
Interest rate swaps	-	70
Other items	8,692	7,947
	Ps.27,454	Ps.25,100

In November 2018, the IMF Executive Board completed its review of Mexico's FCL granted in 2009[15] and reaffirmed Mexico's continued qualification to access FCL resources without restrictions. In November 2017 the Executive Board approved the FCL access of SDR 62.389 billion (approximately USD 87 billion[16]). Following the strategy laid out in the FCL renewal request from 2017, the Bank approved the renewal and reduced the level of financing to SDR 53.476 billion (about USD 74 billion at the prevailing U.S. dollar exchange rate as at the 31 December 2018). As a result, the Bank ratified its access to these resources for the twelve-month period remaining under the current agreement, and paid the corresponding fee to the IMF.

Cash flow hedges correspond to foreign currencies whose market value as at 31 December 2018 is approximately USD 214 million. The hedges are effective and, accordingly, valuation gains and losses are recognized in *Other comprehensive income* from their inception date.

Amortization of intangible assets charged to Operating expenses during 2018 and 2017 was Ps. 173 and Ps. 128, respectively.

f. Monetary base -

An analysis of balances in the monetary base as at 31 December 2018 and 2017 is as follows:

	2018	2017
Banknotes in circulation	Ps.1,616,317	Ps.1,493,027
Coins in circulation	56,888	49,584
	1,673,205	1,542,611
Bank deposits in current account	1,006	3,323
	Ps.1,674,211	Ps.1,545,934

[15] Mexico's first FCL agreement was approved in April 2009 and was subsequently renewed in March 2010, January 2011, November 2012, November 2014 and May 2016, and early renewed in November 2017.
[16] Based on prevailing exchange rates as at 31 December 2018.

g. Other Federal Government deposits -

An analysis of this line item as at 31 December 2018 and 2017 is as follows:

	2018	2017
Federal Government term deposits	Ps. 275,380	Ps.222,138
Federal Treasury - Foreign currency current account	3,736	3,888
	Ps. 279,116	Ps.226,026

h. Monetary regulation liabilities -

An analysis of this line item as at 31 December 2018 and 2017 is as follows:

	2018	2017
Monetary regulation deposits:		
Government securities	Ps.868,293	Ps. 934,374
Banks:		
Commercial banks	182,510	182,448
Development banks	32,729	32,718
	215,239	215,166
	1,083,532	1,149,540
Monetary regulation bonds	105,120	105,085
Other deposits from banks and creditors from repo operations		
Commercial banks	115,423	53,124
Development banks	8,120	2,772
Creditors from repo	-	-
	123,543	55,896
	Ps.1,312,195	Ps.1,310,521

An analysis of monetary regulation deposits of Government securities as at 31 December 2018 and 2017 is as follows:

	2018		2017	
	Government securities	Monetary regulation deposits	Government securities	Monetary regulation deposits
CETES	Ps.1,985,140	(Ps.2,146,495)	Ps.1,526,496	(Ps.1,669,587)
BONDES D	1,344,125	(2,051,063)	1,288,886	(2,080,169)
UDIBONOS	959,733	(959,733)	957,231	(957,231)
BONOS	205,388	(205,388)	264,752	(264,752)
	Ps.4,494,386	(Ps.5,362,679)	Ps.4,037,365	(Ps.4,971,739)
Net credit balance		(Ps.868,293)		(Ps.934,374)

i. International Monetary Fund -

An analysis of this line item as at 31 December 2018 and 2017 is as follows:

	2018	2017
Total IMF deposits:		
IMF deposits	Ps.208,878	Ps.214,789
Provision for foreign exchange differences on domestic currency deposits	(7,314)	8,898
	201,564	223,687
Less:		
Net contributions to IMF:		
IMF Quota	243,590	249,578
IMF reserve tranche (Notes 2d. and 4a.)	(42,026)	(25,891)
	201,564	223,687
	Ps. -	Ps. -

j. Special Drawing Rights -

An analysis of IMF SDR allocations as at 31 December 2018 and 2017 is as follows:

	2018		2017	
	SDR	MXN	SDR	MXN
Beginning balance	2,851	Ps.79,841	2,851	Ps.79,033
Restatement due to exchange rate fluctuations	-	(1,916)	-	808
	2,851	Ps.77,925	2,851	Ps.79,841

k. Other liabilities -

An analysis of other liabilities as at 31 December 2018 and 2017 is as follows:

	2018	2017
Deposits	Ps.84,212	Ps.79,088
Liabilities under foreign currency hedge auctions	-	2,043
Other items	2,233	2,111
	Ps.86,445	Ps.83,242

l. Memorandum accounts -

An analysis of memorandum accounts as at 31 December 2018 and 2017 is as follows:

	2018	2017
Managed Government securities	Ps.23,018,169	Ps.22,139,543
Banco de México banknotes and coins	2,950,043	2,682,593
Managed Savings Protection Bonds	1,313,000	1,310,000
External public debt bonds	706,525	583,038
Issued Monetary Regulation Bonds	400,000	400,000
Trusts net assets	188,550	159,071
Other	313,397	315,082
	Ps.28,889,684	Ps.27,589,327

m. Foreign currency and UDI balances -

The Bank's foreign currency, metals and UDI net balance as at 31 December 2018 and 2017 translated into Mexican pesos, is shown below:

	2018	2017
U.S. dollar	Ps.3,107,407	Ps.3,087,977
Canadian dollar	14,081	55,548
SDR	44,931	29,635
Japanese yen	23,421	19,949
Offshore Chinese yuan	18,732	(3,250)
Australian dollar	29,555	18,717
Singapore dollar	29,450	-
Euro	15,648	13,335
New Zealand dollar	(1)	13,285
Norwegian krone	24,053	13,191
Swiss franc	507	329
Pound sterling	9,865	(2,527)
Other currencies	5,549	5,555
Gold	49,158	81,241
Silver	(2)	(3)
Net currency and metal asset position	Ps.3,372,354	Ps.3,332,982
Net UDI liability position	Ps. (73,620)	Ps. (69,478)

n. Exchange rates

The exchange rates used to translate foreign currency denominated assets and liabilities, as well as metals and UDIs, into Mexican pesos as at 31 December 2018 and 2017 are as follows:

	2018	2017
U.S. dollar	$ 19.651200	$ 19.662900
Canadian dollar	14.389631	15.687024
SDR	27.330685	28.002529
Japanese yen	0.179054	0.174618
Offshore Chinese yuan	2.859854	3.019812
Australian dollar	13.839358	15.378354
Singapore dollar	14.418666	14.713334
Euro	22.469182	23.606295
New Zealand dollar	13.178095	13.985238
Norwegian krone	2.268353	2.402691
Swiss franc	19.944382	20.171215
Pound sterling	25.047420	26.604887
Gold	25,133.884800	25,384.803900
Silver	300.565104	331.614809
UDI	6.226631	5.931331

Note 5.- – Subsequent Events

a. Improvements to BdM FRS -

The CINIF issued new Mexican FRS effective for annual periods beginning on or after 1 January 2019, as well as improvements to existing Mexican FRS. In order to maintain a sound accounting framework aligned to Mexican and international best practices, the Bank updated its accounting framework to align it with the new standards and improvements issued by the CINIF applicable to the Bank. The CINIF Board has issued a favorable opinion with respect to the convergence between BdM FRS and Mexican FRS.

The most relevant changes to BdM FRS effective as of 1 January 2019 are as follows:

The new BdM FRS D-5 *Leases* introduces single model for leases under which the Bank as a lessee recognizes right-of-use assets and lease liabilities. Lessor accounting is substantially unchanged aside from certain additional disclosure requirements.

BdM FRS C-6 *Property, Plant and Equipment* and BdM FRS C-8 *Intangible Assets* establish that the method used for the depreciation of an asset should reflect the pattern of consumption of the expected future economic benefits.

BdM FRS C-14 *Transfer and Derecognition of Financial Assets* establishes the timing and form of a transfer of financial assets that also qualifies as a derecognition, and now establishes that the risks and rewards of the disposed asset must also be transferred.

The Bank does not expect that the adoption of these improvements to BdM FRS will have a material effect on its financial statements in terms of measurement, disclosure and presentation.

b. International reserves -

As at 8 March 2019, the Bank's international reserves total USD 175.7674 billion[17]. The cumulative increase over 31 December 2018 is USD 974.9 million.

c. Exchange rates

The exchange rates used to translate foreign currency denominated assets and liabilities, as well as metals and UDIs, into Mexican pesos as at 12 March 2019 are as follows:

U.S. dollar	$	19.304900
Canadian dollar		14.429255
SDR		26.800041
Japanese yen		0.173535
Offshore Chinese yuan		2.875106
Australian dollar		13.680417
Singapore dollar		14.238752
Euro		21.759518
New Zealand dollar		13.257640
Norwegian krone		2.236512
Swiss franc		19.160240
Pound sterling		25.339612
Gold		25,039.420545
Silver		295. 268446
UDI		6. 247196

d. Foreign exchange gains and losses

As at 12 March 2019, the Mexican peso has had an exchange rate appreciation of $ 0.3463 against the U.S. dollar compared to 31 December 2018. Consequently, in 2019 the Bank recognized a foreign exchange loss from the translation its foreign currency and metal balances.

[17] Latest balance published by the Bank at the date of issue of these financial statements.

The financial statements and accompanying notes were issued on 12 March 2019 and are subject to approval from the Board of Governors.

Gerardo Mauricio Vázquez de la Rosa Director General of Administration	Víctor Moisés Suárez Picazo Director of Accounting, Planning and Budgeting