

**FIBRA TERRAFINA**

**CI Banco, S.A. Institución de Banca Múltiple, Trust F/00939 and  
Subsidiaries**

**Condensed consolidated interim financial statements  
for the period ended September 30, 2017**

**Unaudited**

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## FIBRA TERRAFINA

CI Banco, S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries  
 Condensed Consolidated Interim Statements of Financial Position  
 (Expressed in thousands of Mexican Pesos)

	Note	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
<b>Assets</b>			
<b>Non-current assets</b>			
Investment properties (Cost: 09/30/2017 - \$38,231,624; 12/31/2016 - \$33,817,311)	6	\$ 39,048,450	\$ 34,719,694
Investments accounted using equity method	8	379,146	233,548
Derivative financial instruments	6 and 7	9,192	-
Loan receivable (Cost: 09/30/2017 - \$35,670; 12/31/2016 - \$41,472)	6	35,670	41,472
<b>Current assets</b>			
Other assets		59,258	111,257
Loan receivable (Cost: 09/30/2017 - \$1,131; 12/31/2016 - \$1,232)	6	1,131	1,232
Recoverable taxes		279,736	149,782
Prepaid expenses		3,584	12,385
Acquisition prepayment		614	9,809
Deferred rents receivable		167,781	173,361
Accounts receivable (Net of allowance for doubtful accounts: 09/30/2017 - \$28,055; 12/31/2016 - \$167,619)		76,634	43,417
Restricted cash		33,766	89,137
Cash and cash equivalents		6,658,691	4,297,096
<b>Total assets</b>		<b>46,753,653</b>	<b>39,882,190</b>
<b>Net assets</b>			
Contributions, net		\$ 19,844,088	\$ 14,782,859
Retained earnings		-	334,283
Currency translation adjustment		6,904,057	9,663,287
<b>Total net assets</b>		<b>26,748,145</b>	<b>24,780,429</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings (Principal balance: 09/30/2017 - \$18,843,797; 12/31/2016 - \$14,126,686)	6 and 9	\$ 19,256,799	\$ 13,879,906
Tenant deposits		242,213	198,002
Accounts payable		3,971	5,421
<b>Current liabilities</b>			
Borrowings (Principal balance: 09/30/2017 - \$10,269; 12/31/2016 - \$681,609)	6 and 9	10,269	681,609
Tenant deposits		42,419	41,685
Accounts payable		449,837	295,138
<b>Total liabilities (excluding net assets)</b>		<b>20,005,508</b>	<b>15,101,761</b>
<b>Total net assets and liabilities</b>		<b>\$ 46,753,653</b>	<b>\$ 39,882,190</b>

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

## FIBRA TERRAFINA

CI Banco, S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries  
 Condensed Consolidated Interim Statements of Comprehensive Income  
 (Expressed in thousands of Mexican Pesos)  
 (Unaudited)

	Note	For the three months ended September 30, 2017	For the nine months ended September 30, 2017	For the three months ended September 30, 2016	For the nine months ended September 30, 2016
Rental revenues		\$ 743,212	\$ 2,344,068	\$ 623,047	\$ 1,826,763
Other operating income		67,047	232,509	40,482	155,944
Real estate operating expenses		(114,595)	(441,383)	(116,509)	(403,507)
Fees and other expenses		(126,803)	(315,718)	(76,696)	(223,152)
Realized (loss) gain from disposal of investment properties	6	(5,752)	(2,476)	-	9,361
Net unrealized gain (loss) from fair value adjustment on investment properties	6	103,056	(9,746)	(175,879)	(191,044)
Net unrealized gain (loss) from fair value adjustment on borrowings	6	(134,788)	(647,456)	(106,554)	(353,791)
Net unrealized gain (loss) from fair value adjustment on loan receivable		-	-	(1,713)	(44)
Net unrealized gain (loss) from fair value adjustment on derivative financial instruments	6	4,685	9,090	(28)	(18)
Foreign exchange gain (loss)		(71,880)	134,449	(14,068)	(67,647)
<b>Operating profit</b>		<b>464,182</b>	<b>1,303,337</b>	<b>172,082</b>	<b>752,865</b>
Finance income		3,611	6,881	1,622	3,455
Finance cost		(214,294)	(681,686)	(180,572)	(531,212)
<b>Finance cost - net</b>		<b>(210,683)</b>	<b>(674,805)</b>	<b>(178,950)</b>	<b>(527,757)</b>
Share of profit from equity accounted investments	8	(3,660)	11,659	23,653	43,464
<b>Profit for the period</b>		<b>\$ 249,839</b>	<b>\$ 640,191</b>	<b>\$ 16,785</b>	<b>\$ 268,572</b>
Items that may be subsequently reclassified to profit or loss- currency translation differences		540,918	(2,759,230)	705,109	2,772,683
<b>Total comprehensive profit (loss) for the period</b>		<b>\$ 790,757</b>	<b>\$ (2,119,039)</b>	<b>\$ 721,894</b>	<b>\$ 3,041,255</b>

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

## FIBRA TERRAFINA

CI Banco, S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries  
 Condensed Consolidated Interim Statements of Changes in Net Assets  
 For the period ended September 30, 2017 and September 30, 2016  
 (Expressed in thousands of Mexican Pesos)  
 (Unaudited)

	Note	Attributable to Investors			Net assets
		Net contributions	Currency translation adjustment	Retained (losses) earnings	
Balance at January 1, 2016		\$ 15,227,911	\$ 5,519,448	\$ 201,212	\$ 20,948,571
CBFI's issued	10	5,013	-	-	5,013
Distributions to the investors		(450,065)	-	(469,784)	(919,849)
<b>Comprehensive income</b>					
Profit for the period		-	-	268,572	268,572
<b>Other comprehensive income</b>					
Currency translation		-	2,772,683	-	2,772,683
<b>Total comprehensive income</b>		-	<b>2,772,683</b>	<b>268,572</b>	<b>3,041,255</b>
<b>Net Assets at September 30, 2016</b>		<b>\$ 14,782,859</b>	<b>\$ 8,292,131</b>	<b>\$ -</b>	<b>\$ 23,074,990</b>
Balance at January 1, 2017		\$ 14,782,859	\$ 9,663,287	\$ 334,283	\$ 24,780,429
Capital contribution, net of issuing costs	10	5,390,049	-	-	5,390,049
Distributions to the investors	10	(328,820)	-	(974,474)	(1,303,294)
<b>Comprehensive income</b>					
Profit for the period		-	-	640,191	640,191
<b>Other comprehensive income</b>					
Currency translation		-	(2,759,230)	-	(2,759,230)
<b>Total comprehensive (loss) income</b>		-	<b>(2,759,230)</b>	<b>640,191</b>	<b>(2,119,039)</b>
<b>Net Assets at September 30, 2017</b>		<b>\$ 19,844,088</b>	<b>\$ 6,904,057</b>	<b>\$ -</b>	<b>\$ 26,748,145</b>

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

## FIBRA TERRAFINA

CI Banco, S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries  
 Condensed Consolidated Interim Statements of Cash Flows  
 (Expressed in thousands of Mexican Pesos)  
 (Unaudited)

	Note	For the nine months ended September 30, 2017	For the nine months ended September 30, 2016
<b>Cash flows from operating activities:</b>			
Profit for the period		\$ 640,191	\$ 268,572
Adjustments:			
Net unrealized loss from fair value adjustment on investment properties	6	9,746	191,044
Net unrealized gain (loss) from fair value adjustment on borrowings	6	647,456	353,791
Net unrealized gain (loss) from fair value adjustment on loan receivable		-	44
Net unrealized gain (loss) from fair value adjustment on derivative financial instruments	6	(9,090)	18
Realized loss (gain) from disposal of investment properties	6	2,476	(9,361)
Bad debt expense		30,185	27,127
Interest expense		632,608	489,536
Interest income on bank accounts		(5,267)	(2,614)
Share of profit from equity accounted investments	8	(11,659)	(43,464)
(Increase) decrease in:			
Deferred rents receivable		5,580	(44,547)
Restricted cash		55,371	(39,853)
Accounts receivable		(63,402)	(23,876)
Recoverable taxes		(129,954)	229,163
Prepaid expenses		8,801	5,355
Other assets		51,999	11,292
Increase (decrease) in:			
Tenant deposits		44,945	27,604
Accounts payable		153,249	111,430
<b>Net cash generated from operating activities</b>		<b>2,063,235</b>	<b>1,551,261</b>
<b>Cash flows from investing activities:</b>			
Acquisition of investment properties	6	(9,822,667)	(26,970)
Improvements of investment properties	6	(180,477)	(246,770)
Proceeds from dispositions of investment properties	6	133,751	60,046
Acquisition prepayment		9,195	(12,523)
Interest income on bank accounts		5,267	2,614
Investments in joint venture	8	(141,401)	(35,985)
Proceed from loan receivable		-	(37,705)
Principal payments on loan receivable	6	829	353
<b>Net cash used in investing activities</b>		<b>(9,995,503)</b>	<b>(296,940)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from borrowings	6	9,728,294	-
Principal payments on borrowings	6	(2,895,373)	(56,635)
Interest expense		(632,608)	(489,536)
Distributions to investors	10	(1,303,294)	(919,849)
Proceeds from CBF1		5,390,049	5,013
<b>Net cash generated from (used in) financing activities</b>		<b>10,287,068</b>	<b>(1,461,007)</b>
Net decrease in cash and cash equivalents		2,354,800	(206,686)
Cash and cash equivalents at the beginning of the period		4,297,096	4,467,863
Exchange rate effects on cash and cash equivalents		6,795	577,645
<b>Cash and cash equivalents at the end of the period</b>		<b>\$ 6,658,691</b>	<b>\$ 4,838,822</b>

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

# Fibra Terrafina

## CI Banco S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements for the period ended September 30, 2017

(Unaudited)

*(All amounts in thousands of Mexican Pesos, unless otherwise stated)*

#### 1. REPORTING ENTITY

Terrafina (“Terrafina” or “the Trust”) is a Mexican trust created pursuant to Trust Agreement F/00939 dated on January 29, 2013 (as amended on March 15, 2013) entered into by and among PLA Administradora Industrial, S. de R.L. de C.V. as trustor and beneficiary and CI Banco S.A., Institución de Banca Múltiple, as trustee (“the Trustee”) and Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero, as common representative of the real estate trust certificates (“Certificados Bursátiles Fiduciarios Inmobiliarios” or “CBFI’s”) holders. The term of the Trust is undefined.

Terrafina is an industrial portfolio created mainly to acquire, develop, lease and manage real estate properties in Mexico, as well as to provide financing for said purposes secured by the respective related leased real estate properties.

Terrafina’s registered address is Presidente Masaryk 61, 7th floor, Chapultepec Morales, Miguel Hidalgo, México City, 11570.

Terrafina is treated as a Real Estate Investment Trust (also known as a Mexican “FIBRA”) according with Articles 187 and 188 of the Mexican Federal Income Tax Law (“Ley del Impuesto sobre la Renta”) for tax purposes.

In order to carry out its operations, the Trust has entered into the following agreements:

- (i) An advisory agreement with PLA Administradora Industrial, S. de R.L. de C.V. (“the Advisor”), an affiliated company of PGIM Real Estate, which will provide advisory and real estate investment management services, as well as other related services.
- (ii) A management agreement with TF Administradora, S. de R.L. de C.V. (“the Manager”), in order for the latter to carry out certain management services on behalf of the Trust.

Capitalized terms used herein without definition shall have the meanings assigned to them in the Management and Advisory Agreement.

#### 2. BASIS OF PRESENTATION

##### (a) Statement of compliance

The enclosed condensed consolidated interim financial statements have been prepared in accordance with the International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” which is part of the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standard Board (“IASB”) and its interpretations, issued by the International Financial Reporting Interpretations Committee (“IFRIC”). The condensed consolidated interim financial statements do not include all the information and disclosure required in annual consolidated financial statements in accordance with IFRSs, and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2016, which were prepared in accordance with IFRS. There are no new IFRSs or IFRIC interpretations effective for periods beginning January 1, 2017 applicable to Terrafina.

The enclosed condensed consolidated interim financial statements were authorized for issuance by the Terrafina Audit and Technical Committees on October 25, 2017.

##### (b) Judgments and estimates

Preparation of condensed consolidated interim financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to apply its judgment in the process of applying the Trust’s accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period in which the assumptions change. Management believes that the underlying assumptions are appropriate. The accounting policies, judgments and estimates used in the preparation of the condensed consolidated interim financial statements are consistent with those applied in the consolidated financial statements as of and for the year ended December 31, 2016.

## Fibra Terrafina

### CI Banco S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries

#### Notes to the Condensed Consolidated Interim Financial Statements for the period ended September 30, 2017

(Unaudited)

*(All amounts in thousands of Mexican Pesos, unless otherwise stated)*

### 3. SIGNIFICANT TRANSACTIONS

On April 29, 2016, the Nominating Committee, approved exercise 167,094 CBFI's for payment of the incentive plan.

On May 13, 2016, Terrafina granted a loan to Controladora Idea, S.A. de C.V. for US\$2 million (\$37 million of Mexican pesos). The loan term is 5 years with a 5.50% fixed rate.

On October 11, 2016, Terrafina entered into credit facility with BBVA Bancomer, S.A. ("Bancomer") and JP Morgan Chase Bank, N.A. ("JP Morgan"), for US\$150 million (\$2,894 million of Mexican pesos) with a maturity of 5 years, subject to an initial London Inter Bank Offered Rate ("LIBOR") + 200 bps interest rate which may increase depending on the Trust's leverage, rating and the passage of time. The received cash proceeds were used to prepay US\$148 million (\$2,806 million of Mexican pesos) of BRE Debt México II, S. A. de CV. SOFOM ENR ("BRE").

On November 1, 2016, Terrafina entered into an extension agreement in relation to the borrowing with Metropolitan Life Insurance Company ("Metlife"), retaining the preexisting terms at the extension date, which extended the maturity of this loan to March 1, 2017.

On December 20, 2016, Terrafina entered into a joint venture agreement with Avante Parques Industriales, S.A. de C.V. ("Avante"), with an equity interest of 50% for each of the parties involved. The initial contribution was made on the same date, in cash.

During 2016, the Mexican Tax Authorities refunded Value Added Tax ("VAT") to the Trust for US\$16 million (\$309 million of Mexican pesos).

On January 10, 2017, Terrafina made the second drawdown of the Citibank, N.A. ("Citibank") loan, originally granted on August 25, 2015, for US\$295 million (\$6,288 million of Mexican pesos). The cash received was used to pay the portfolio acquisition mentioned below.

On January 12, 2017, Terrafina acquired a portfolio of 45 industrial properties, for US\$380 million (\$8,228 million of Mexican pesos). The rights to the existing leases were also acquired. This transaction generated a recoverable VAT for \$1,127 million of Mexican pesos, which were reimbursed to the Trust during July 2017.

On January 31, 2017, Terrafina entered into a new credit facility with Metlife for US\$150 million (\$3,153 million of Mexican pesos) with a maturity of 10 years, with a 4.75% coupon rate. The cash received was used to fully prepay the Metlife and BRE debt.

On April 28, 2017, the Nominating Committee, approved exercise 91,142 CBFI's for payment of the incentive plan.

On July 19, 2017, Terrafina carried out its third public placement of 183,546,039 CBFI which includes an over-allotment option, through a global offering as follows:

- (a) An international offering of 94,458,802 CBFI's.
- (b) A simultaneous public offering in Mexico of 65,146,449 CBFI's.
- (c) Over-allotment option of 23,940,788 CBFI's.

For further details on the public placement please refer to Note 10.



# Fibra Terrafina

## CI Banco S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements for the period ended September 30, 2017

(Unaudited)

*(All amounts in thousands of Mexican Pesos, unless otherwise stated)*

#### 3. SIGNIFICANT TRANSACTIONS (continued)

On August 15, 2017, Terrafina acquired the trust rights of a portfolio of 5 industrial properties, for US\$34 million (\$602 million of Mexican pesos), the Trust entered into credit facility with Seguros Monterrey New York Life (“SMNYL”) for US\$16 million (\$287 million of Mexican pesos) as a result of this acquisition. Additionally, on September 19, 2017, Terrafina acquired 2 industrial properties, for US \$19 million (\$343 million of Mexican pesos). Both transactions acquired rights over existing leases. These transactions generated a recoverable VAT, which will be requested for reimbursement during the last quarter of 2017.

During the quarter ending on September 30, 2017, the Mexican tax authorities refunded VAT to the Trust for \$1,127 million of Mexican pesos, related with the acquisition of a portfolio of 45 industrial properties.

#### 4. RECLASIFICACIONES

Certain amounts on the condensed consolidated interim financial statements of prior periods have been reclassified according with the current periods presentation. Such reclassifications had no effect over the prior issued consolidated financial statements.

#### 5. CONSOLIDATION BASIS

These condensed consolidated interim financial statements include net assets and results of operations of the entities listed below controlled by Terrafina as of and for the period ended September 30, 2017 and the twelve months ended December 31, 2016. All significant intercompany balances and transactions have been eliminated from the condensed consolidated interim financial statements.

##### Subsidiaries

Subsidiaries are all entities over which the Trust has control. The Trust controls an entity when it is exposed, or has rights to variable returns as a result of their involvement in it, also has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Trust. They are deconsolidated from the date that control ceases.

Trustee: HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria as Trustee of the following trusts:

- Trust F/307823
- Trust F/307831
- Trust F/307840
- Trust F/307858
- Trust F/307866
- Trust F/307874
- Trust F/307882
- Trust F/307890
- Trust F/307904
- Trust F/307912
- Trust F/307920
- Trust F/307939
- Trust F/307947
- Trust F/307955
- Trust F/307963
- Trust F/307971
- Trust F/307980
- Trust F/308030

## **Fibra Terrafina**

### **CI Banco S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries**

#### **Notes to the Condensed Consolidated Interim Financial Statements for the period ended September 30, 2017**

**(Unaudited)**

*(All amounts in thousands of Mexican Pesos, unless otherwise stated)*

#### **5. CONSOLIDATION BASIS (continued)**

Trustee: HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria as Trustee of the following trusts:

- Trust F/308048
- Trust F/308293
- Trust F/308285

Trustee: Banco Invex, S. A., Institución de Banca Múltiple, Invex Grupo Financiero as Trustee of the following trusts:

- Trust F/1411
- Trust F/1412
- Trust F/2609

Trustee: Deutsche Bank México, S. A., Institución de Banca Múltiple, División Fiduciaria as Trustee of the following trusts:

- Trust F/128
- Trust F/129
- Trust F/824
- Trust F/1487

Trustee: CI Banco, S. A., Institución de Banca Múltiple, as Trustee of the following trusts:

- Trust F/666
- Trust F/463
- Trust F/824
- Trust F/2171

TF Administradora, S. de R.L. de C.V.

The entities mentioned below, are accounted for using the equity method:

Trustee: Monex Casa de Bolsa, S.A. de C.V., as Trustee of the following trust:

- Trust F/2717
- Trust F/3485

# Fibra Terrafina

## CI Banco S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements for the period ended September 30, 2017

(Unaudited)

*(All amounts in thousands of Mexican Pesos, unless otherwise stated)*

#### 6. FAIR VALUE MEASUREMENTS

IFRS 13 guide on fair value measurements and disclosures establishes a fair value measurement framework, provides a sole definition of fair value and requires expanded disclosures summarizing fair value measurements. This standard provides a three-level hierarchy based on inputs used in the valuation process. The level in the fair value hierarchy under which fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices in active markets that are accessible to the entity for identical assets or liabilities. These quoted prices generally provide the most reliable evidence and should be used to measure fair value whenever available.

Level 2 – Fair value is based on inputs, other than Level 1 inputs, that are observable for the asset or liability, either directly or indirectly, substantially for the full term of the asset or liability through corroboration of observable market data.

Level 3 – Fair value is based on significant unobservable inputs for the asset or liability. Such inputs reflect the entity's own assumptions about how market participants would price the asset or liability.

##### a. Investment Properties

In general terms, fair value estimations are based on property appraisal reports prepared by independent real estate appraisers (members of the National Appraisal Institute or an equivalent organization) within a reasonable amount of time following the acquisition of real estate and no less frequently than annually thereafter. The Chief Real Estate Appraiser of PGIM Real Estate, an affiliated company of the Advisor and the Manager, is responsible for ensuring that the valuation process provides independent and reasonable property fair value estimates.

The purpose of an appraisal is to estimate the fair value of investment properties at a specific date. Fair value is defined as the price to be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value estimate is based on conventional valuation approaches, all of which require the exercise of subjective judgment. The three approaches are: (1) current cost of replacement of the real estate less impairment and functional and economic obsolescence; (2) discounting of a series of income cash flows and their reversion at a specific yield or by directly capitalizing a single year's income by an appropriate factor; and (3) the value shown for recent sales of comparable real estate on the market. Key assumptions include rental income and expense amounts, discount rates and capitalization rates. In reconciling those three approaches, an independent appraiser uses one or a combination of these approaches to arrive at the approximate value of Investment properties in the market.

In general terms, inputs used in the appraisal process are unobservable; therefore, unless otherwise indicated, Investment properties are classified as Level 3 under the guidance on fair value measurement hierarchy.

As described above, the estimated fair value of Investments properties is generally determined through an appraisal process. Those estimated fair values may vary significantly from the prices at which the real estate investments would sell, since market prices of real estate investments can only be determined through negotiations between a willing buyer and a seller. Such differences could be material to the consolidated financial statements.

# Fibra Terrafina

## CI Banco S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements for the period ended September 30, 2017

(Unaudited)

*(All amounts in thousands of Mexican Pesos, unless otherwise stated)*

#### 6. FAIR VALUE MEASUREMENTS (continued)

##### a. Investment Properties (continued)

The independent appraiser used the following unobservable inputs based on discounted cash flow method.

Most significant unobservable inputs:

- Discount rate: The internal yield rate (“internal rate of return” or “IRR”) is the single rate that discounts all future net assets benefits in terms of net present value. The discount rate as of September 30, 2017, and December 31, 2016, ranges between 9% and 12% for both years.
- Market yield growth rate: Based on information gathered from surveys, as well as market experience and Management’s projections. Market yield growth rate ranges between 2% and 3% for both years.
- Vacancy and collection loss assumptions: This is a function of the interrelationship between absorption, lease expiration, renewal probability, and estimated downtime between leases and a collection loss factor based on the relative stability and credit of the subject’s tenant base.

Unrealized gain (loss) from fair value adjustment on Investment properties is included in the condensed consolidated interim statements of comprehensive income.

##### b. Borrowings

Valuation process for Trust borrowings:

The valuations for financial reporting purposes are prepared by an independent third party and they are based on discounted cash flows. Discussions of valuation processes and results are held between the Vice president of capital markets and the appraiser at least once every year.

The significant Level 3 inputs used by the Trust are derived and evaluated as follows:

- Discount rates: These rates are estimated based on the costs of loans that are comparable and available at public information sources or other sources available for the Trust. Discount rate as of September 30, 2017, and December 31, 2016, ranges between 4.41% and 5.70% and 4.23% and 5.15%, respectively.
- Management has estimated fair values based on historical data and on its experience, which is in line with internal credit policies. The unobservable inputs used in the fair value measurement of borrowings and loan receivable are the discount rates, for which a significant increase (decrease) would result in a significantly lower (higher) fair value measurement.

Level 2 and 3 fair values are analyzed at each reporting date during quarterly valuation discussions between the parties involved in the process.

##### c. Derivative financial instruments

The Trust records interest rate “Caps” and fixed rate options at fair value, which is determined using discounted cash flow models. Key assumptions used in the discounted cash flow model include the contractual terms of the agreement, along with significant observable inputs, including interest rates, credit spreads and other factors, such as the Trust’s nonperformance risk as well as that of the Trust’s counterparties. Those derivatives are traded in the over-the-counter (“Over the counter” or “OTC”) market and are classified within Level 2 in the fair value hierarchy.

## Fibra Terrafina

### CI Banco S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries

#### Notes to the Condensed Consolidated Interim Financial Statements for the period ended September 30, 2017

(Unaudited)

*(All amounts in thousands of Mexican Pesos, unless otherwise stated)*

#### 6. FAIR VALUE MEASUREMENTS (continued)

Table 1 below summarizes assets and liabilities measured at fair value on a recurring basis and their respective level in the fair value hierarchy:

**Table 1**

##### Fair Value Measurements at September 30, 2017

	Cost at 09/30/2017	Amounts measured at fair value 09/30/2017	Quoted prices in active markets for identical net assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>					
Investment properties	\$ 38,231,624	\$ 39,048,450	\$ -	\$ -	\$ 39,048,450
Derivative financial instruments	-	9,192	-	9,192	-
Loan receivable	36,801	36,801	-	-	36,801
<b>Total assets</b>	<b>\$ 38,268,425</b>	<b>\$ 39,094,443</b>	<b>\$ -</b>	<b>\$ 9,192</b>	<b>\$ 39,085,251</b>
<b>Liabilities:</b>					
Borrowings	\$ 18,854,066	\$ 19,267,068	\$ -	\$ -	\$ 19,267,068
<b>Total liabilities</b>	<b>\$ 18,854,066</b>	<b>\$ 19,267,068</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 19,267,068</b>

##### Fair Value Measurements at December 31, 2016

	Cost at 12/31/2016	Amounts measured at fair value 12/31/2016	Quoted prices in active markets for identical net assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>					
Investment properties	\$ 33,817,311	\$ 34,719,694	\$ -	\$ -	\$ 34,719,694
Derivative financial instruments	-	-	-	-	-
Loan receivable	42,704	42,704	-	-	42,704
<b>Total assets</b>	<b>\$ 33,860,015</b>	<b>\$ 34,762,398</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 34,762,398</b>
<b>Liabilities:</b>					
Borrowings	\$ 14,808,295	\$ 14,561,515	\$ -	\$ -	\$ 14,561,515
<b>Total liabilities</b>	<b>\$ 14,808,295</b>	<b>\$ 14,561,515</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 14,561,515</b>

## Fibra Terrafina

### CI Banco S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries

#### Notes to the Condensed Consolidated Interim Financial Statements for the period ended September 30, 2017

(Unaudited)

*(All amounts in thousands of Mexican Pesos, unless otherwise stated)*

#### 6. FAIR VALUE MEASUREMENTS (continued)

Table 2 below shows the reconciliation of the beginning and ending balances for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods from January 1 thru September 30, 2017 and January 1 thru December 31, 2016.

**Table 2**

#### Fair value measurements using significant unobservable inputs (Level 3)

	Beginning balance 01/01/17	Realized and unrealized net gain (loss)	Currency translation	Acquisitions and capital expenditures	Dispositions	Ending balance 06/30/17
<b>Assets:</b>						
Investment properties	\$ 34,719,694	\$ (12,222)	\$ (5,528,415)	\$ 10,003,144	\$ (133,751)	\$ 39,048,450
Loan receivable	42,704	-	(5,074)	-	(829)	36,801
<b>Total assets</b>	<b>\$ 34,762,398</b>	<b>\$ (12,222)</b>	<b>\$ (5,533,489)</b>	<b>\$ 10,003,144</b>	<b>\$ (134,580)</b>	<b>\$ 39,085,251</b>
<b>Liabilities:</b>						
Borrowings	\$ 14,561,515	\$ 647,456	\$ (2,774,824)	\$ 9,728,294	\$ (2,895,373)	\$ 19,267,068
<b>Total liabilities</b>	<b>\$ 14,561,515</b>	<b>\$ 647,456</b>	<b>\$ (2,774,824)</b>	<b>\$ 9,728,294</b>	<b>\$ (2,895,373)</b>	<b>\$ 19,267,068</b>

#### Fair value measurements using significant unobservable inputs (Level 3)

	Beginning balance 01/01/16	Realized and unrealized net gain (loss)	Currency translation	Acquisitions and capital expenditures	Dispositions	Ending balance 12/31/16
<b>Assets:</b>						
Investment properties	\$ 28,476,842	\$ (179,410)	\$ 5,741,274	\$ 810,176	\$ (129,188)	\$ 34,719,694
Loan receivable	-	(44)	5,680	37,705	(637)	42,704
<b>Total assets</b>	<b>\$ 28,476,842</b>	<b>\$ (179,454)</b>	<b>\$ 5,746,954</b>	<b>\$ 847,881</b>	<b>\$ (129,825)</b>	<b>\$ 34,762,398</b>
<b>Liabilities:</b>						
Borrowings	\$ 12,215,627	\$ (55,234)	\$ 2,425,031	\$ 2,894,910	\$ (2,918,819)	\$ 14,561,515
<b>Total liabilities</b>	<b>\$ 12,215,627</b>	<b>\$ (55,234)</b>	<b>\$ 2,425,031</b>	<b>\$ 2,894,910</b>	<b>\$ (2,918,819)</b>	<b>\$ 14,561,515</b>

## Fibra Terrafina

### CI Banco S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries

#### Notes to the Condensed Consolidated Interim Financial Statements for the period ended September 30, 2017

(Unaudited)

(All amounts in thousands of Mexican Pesos, unless otherwise stated)

#### 7. DERIVATIVE FINANCIAL INSTRUMENTS

During the quarter ended June 30, 2017, the Trust acquired an interest rate Cap and two fixed rate options to hedge the interest rate risk exposure of the Terrafina's loans.

The outstanding derivative financial instruments as of September 30, 2017 and at December 31, 2016, are summarized as follows:

September 30, 2017							
Derivative type	Bank	Notional amount (USD)	Underlying variable rate	Strike price	Fair value	Inception date	Maturity date
Cap	JPM	100,000	3M LIBOR	1.750%	\$ 24	May 18, 2017	April 25, 2018
Fixed Rate Option	HSBC	120,000	3M LIBOR	1.286%	1,466	May 18, 2017	April 25, 2018
Fixed Rate Option	Barclay	105,000	3M LIBOR	1.768%	7,702	May 18, 2017	October 4, 2021
<b>Total</b>					<b>\$ 9,192</b>		

  

December 31, 2016							
Derivative type	Bank	Notional amount (USD)	Underlying variable rate	Strike price	Fair value	Inception date	Maturity date
Cap	Bancomer	300,000	3M LIBOR	2.00%	\$ -	September 3, 2015	December 30, 2016
<b>Total</b>					<b>\$ -</b>		

## Fibra Terrafina

### CI Banco S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries

#### Notes to the Condensed Consolidated Interim Financial Statements for the period ended September 30, 2017

(Unaudited)

*(All amounts in thousands of Mexican Pesos, unless otherwise stated)*

#### 8. INVESTMENTS ACCOUNTED USING EQUITY METHOD

On December 20, 2016, Terrafina entered into a joint venture agreement with Avante with an equity interest of 50% for each of the parties involved.

Below shows the reconciliation of the ending balances at September 30, 2017 and December 31, 2016.

	September 30, 2017	December 31, 2016
Initial balance	\$ 233,548	\$ 100,945
Capital contributions (distributions)	141,401	55,203
Share of profit from equity accounted investments	11,659	47,643
Currency translation adjustment	(7,462)	29,757
<b>Ending balance</b>	<b>\$ 379,146</b>	<b>\$ 233,548</b>

#### 9. BORROWINGS

Borrowings include mortgage loans payable as summarized below:

Credit entity/ Instrument	September 30, 2017		December 31, 2016		Interest rate (p.a.) <small>[1], [2], [3]</small>	Maturity date	Terms <small>[4]</small>
	Principal balance	Fair value	Principal balance	Fair value			
BOND	\$ 7,734,107	\$ 8,147,109	\$ 8,782,200	\$ 8,535,420	Fixed - 5.25%	November, 2022	I
CITIBANK <sup>[5]</sup>	5,368,380	5,368,380	-	-	3 months LIBOR + 2.65% <sup>[6]</sup>	August, 2019	I
METLIFE	2,729,685	2,729,685	-	-	Fixed - 4.75%	January, 2027	I
BANCOMER/JPM	2,729,685	2,729,685	3,099,600	3,099,600	3 months LIBOR + 2.25% <sup>[6]</sup>	September, 2021	P&I
BRE	-	-	2,472,766	2,472,766	3 months LIBOR + 3.75%	February, 2017 <sup>[7]</sup>	P&I
METLIFE NEW YORK LIFE <sup>[8]</sup>	-	-	453,729	453,729	Fixed - 5.09%	February, 2017 <sup>[7]</sup>	P&I
	292,209	292,209	-	-	Fixed - 5.19%	February, 2020	P&I
<b>Total of borrowing</b>	<b>\$ 18,854,066</b>	<b>\$ 19,267,068</b>	<b>\$ 14,808,295</b>	<b>\$ 14,561,515</b>			

[1] p.a. = per year.

[2] At September 30, 2017, and December 31, 2016, the 3 months LIBOR rate was 1.3339% and 0.9979%, respectively.

[3] TIE = Interbank Balance Interest Rate.

[4] P&I / I = Principal and interest; I = Interest only.

[5] Unsecured, committed, revolving credit, up to an amount of US\$375 million.

[6] The margin may vary according to the Rating and Loan to Value ("LTV") ratio. During the quarter ended September 30, 2017, the interest rate margin increased 25bps according to outstanding LTV.

[7] Full Prepayment date.

[8] Loan includes two drawdowns. First drawdown outstanding amounts US\$12,473,785 as of September 30, 2017 with a Fixed Rate of 5.19%. Second drawdown outstanding amounts US\$3,583,487 as of September 30, 2017 with a Fixed Rate of 4.84%



## Fibra Terrafina

### CI Banco S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries

#### Notes to the Condensed Consolidated Interim Financial Statements for the period ended September 30, 2017

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*(All amounts in thousands of Mexican Pesos, unless otherwise stated)*

#### 9. BORROWINGS (continued)

As of September 30, 2017, the Metlife debt is collateralized by Investment properties with an aggregate estimated fair value of \$6,967,500.

As of September 30, 2017, and December 31, 2016, fair value borrowings are payable as follows:

		<u>&lt;1 year</u>		<u>1 – 3 years</u>		<u>&gt;3 years</u>		<u>Total</u>
September 30, 2017	\$	10,269	\$	5,752,683	\$	13,504,116	\$	19,267,068
December 31, 2016	\$	681,609	\$	2,244,885	\$	11,635,021	\$	14,561,515

All the loans are denominated in United States Dollars. Terrafina is benefited from not paying principal amortizations with respect to the credit facility from Bancomer, until September 2019.

The Trust's exposure to the risk from changes in interest rates is largely related to the long-term borrowings. The Trust manages its interest rate risk through a combination of fixed-rate and variable-rate borrowings. In general, short-term borrowings may be subject to a floating rate while longer-term borrowings are typically subject to a fixed rate or a floating rate.

#### 10. NET ASSETS

Net Assets consists of the initial contribution and the proceeds from the issued CBFI's.

As of September 30, 2017, the Trust had a contribution for \$21,334,893 and it consist of 791,014,635 of CBFI's in circulation as follows:

<u>No. of CBFI's</u>	<u>Details</u>		<u>Contributions</u>
607,210,360	As of January 1, 2016	\$	15,939,832
167,094	CBFI's exercised on April 29, 2016		5,013
91,142	CBFI's exercised on April 28, 2017		2,886
183,546,039	CBFI's exercised on July 19, 2017		5,387,162
<u>791,014,635</u>	<u>As of September 30, 2017</u>	<u>\$</u>	<u>21,334,893</u>

Terrafina approved and paid distributions as an upfront payment to the CBFI's holders, such distributions were considered as capital reimbursement for tax purposes.

<u>Distribution Date</u>	<u>Amount</u>
March 13, 2017	\$ 400,364
May 12, 2017	450,484
July 26, 2017	452,446
<b>Total Distribution 2017</b>	<b>\$ 1,303,294</b>

## **Fibra Terrafina**

### **CI Banco S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries**

#### **Notes to the Condensed Consolidated Interim Financial Statements for the period ended September 30, 2017**

**(Unaudited)**

*(All amounts in thousands of Mexican Pesos, unless otherwise stated)*

#### **10. NET ASSETS**

On April 29, 2016, the Nominating Committee, approved exercise 167,094 CBFIs for payment of the incentive plan.

On April 28, 2017, the Nominating Committee, approved exercise 91,142 CBFIs for payment of the incentive plan.

As is described in Note 3, on July 19, 2017, Terrafina carried out a third public offering of 183,546,039 real estate trust certificates (CBFI's) in Mexico, together with private offerings in other international markets (including an over-allotment option), for an amount equivalent to \$5,552,268 (\$30.25 for each CBFI). The issuing costs of \$165,105 were recognized as a reduction from the proceeds from the public offering and shown as capital contributions, net of issuing costs in the Net Assets Attributable to the Investors (Net Equity).

#### **11. RELATED PARTIES**

The following detail, includes the Trust outstanding related parties activities:

##### **Manager**

The Trust reimburses the Manager for all costs incurred in carrying out its functions plus VAT.

The reimbursed costs for the periods ended September 30, 2017 and September 30, 2016 were \$17,965 and \$5,222 respectively, and were eliminated at consolidation.

##### **Advisor**

Until April 7, 2016 the Trust paid a management fee to the Advisor, equivalent to 0.5% per annum of the gross cost of the real estate assets plus the annual inflation rate and VAT.

On April 8, 2016, the Committee of Holders approved the amendment to the Advisory Agreement, from that date the payment of fees to the Advisor is equivalent to 0.5% per annum of the fair market value of real estate assets plus VAT.

The management fee accrued for the three months ended September 30, 2017 and September 30, 2016 were \$47,861 and \$39,992, respectively.

#### **12. COMMITMENTS AND CONTINGENCIES**

In the ordinary course of business there can be various legal actions related to properties of the Trust. At September 30, 2017, the Trust's management was not aware of any such matter that had or would have a material effect on Trust's financial condition or results of operations.

#### **13. SUBSEQUENT EVENTS**

On October 25, 2017, the Technical Committee approved a dividend payment of \$410,395 corresponding to \$.5188 cents per CBFIs.

During October 2017, the Mexican Tax Authorities reimbursed VAT to the Trust for \$59 million of Mexican pesos.