Banco Nacional de Comercio Exterior, S. N. C.,
Institución de Banca de Desarrollo and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(Millions of Mexican pesos)

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

(1) Description of business-

Incorporation-

Banco Nacional de Comercio Exterior, S. N. C., Institución de Banca de Desarrollo (the Institution), is an entity of the Federal Public Administration with an independent legal status and own capital, incorporated as a National Credit Corporation under the Credit Institutions Law and its own Integral Law.

On June 8, 1937, was founded Banco Nacional de Comercio Exterior, S. A. On July 12, 1985, following the Mexican nationalization of banks, the Institution became Banco Nacional de Comercio Exterior, S.N.C., Institución de Banca de Desarrollo. On January 20, 1986, Congress issued the "Integral Law of Banco Nacional de Comercio Exterior". Based on the provisions published in the June 24, 2002 Official Gazette, the Ministry of Finance amended, added and repealed various provisions thereof, especially aspects regarding the objectives, operations, administration, supervisions and authority of the Board of Directors of the Institution, and the powers of the Institution's General Director. On April 2, 1991, the Ministry of Finance (SHCP for its acronym in Spanish) issued the Integral Regulations of the Institution, amended on March 14, 1996 and September 10, 2009. On January 10, 2014, in the Official Gazette was published the Decree by which various provisions of the Organic Law were amended, added and abrogated and the Law to Regulate Financial Groups is issued, through which various provisions of the Organic Law were modified; as a result of the aforementioned reforms, on August 25, 2015, the Agreement was published in the Official Gazette by which the Organic Regulation was fully modified. On September 25, 2017 and March 27, 2020, modifications to the aforementioned Regulations were published in the Official Gazette.

Activity-

Under the Integral Law in effect for the Institution, as a development bank, the Institution provides public banking and credit services in accordance with the objectives and priorities of the National Development Plan, and in particular the National Program for Development Financing, to encourage and finance the activities and sectors that are governed by the Integral Law.

As a Development Banking Institution, the Institution's purpose is to finance Mexico's foreign trading and to participate in promoting such activity.

The Institution's main operations are regulated by the Law to Credit Institutions and by the Law of Banco de Mexico ("Banxico" or "Mexican Central Bank"). Those regulations include different restrictions that specify the maximum level of leveraging allowed, as well as the capitalization requirements that limit the Institution's investments and transactions, and are supervised by the National Banking and Securities Commission (CNBV for its acronym in Spanish).

The accompanying consolidated financial statements at December 31, 2020 and 2019 and for the years then ended, include those of the Institution and its subsidiary Desarrollo Inmobiliario Especializado, S. A. de C. V. (DIESA). The description of the corporate purpose of the subsidiary and its participation in equity are described below.

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(Millions of Mexican pesos)

Subsidiary	Ownership	Activity
Desarrollo Inmobiliario Especializado, S. A. de C. V.	99.20% (Series "A") 100.00% (Series "B")	- The acquisition, lease, administration, disposal and use of real estate. - Execution of adaptation, conservation, construction, demolition, maintenance and modification works on properties where the Institution has or going to have offices.

Its total assets comprise 0.11% and 0.12% of the Institution´s total assets as of December 31, 2020 and 2019, respectively.

(2) Financial Statements authorization and presentation -

Authorization-

The accompanying consolidated financial statements and their notes as of December 31, 2020 and for the year then ended, were authorized by the executives that subscribe them: Carlos Noriega Romero (Chief Executive Officer), José Alberto Gómez Sandoval (Deputy General Director of Administration and Finance), Julia Noemí Rodríguez Kú (Director of Accounting and Budget) and Víctor Manuel Jiménez García (Director of Internal Audit) on February 22, 2021, for approval by the Board of Directors at a later date.

In accordance with the General Corporations Law and the Institution's bylaws, and the general criteria applicable to Credit Institutions in Mexico, issued by the CNBV, the Board of Directors and the CNBV are empowered to modify the accompanying consolidated financial statements for 2020, after issuance.

Basis of preparation-

a) Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with the banking legislation, and in accordance with the accounting criteria for credit institutions in Mexico (the Accounting Criteria) issued by the CNBV, which is responsible for the inspection and supervision of credit institutions and for reviewing their financial information.

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The accounting criteria indicate that the CNBV will issue specific standards for specialized transactions and in the absence of an explicit accounting criteria by the CNBV for credit institutions and in a wider framework of the Mexican Financial Reporting Standards (FRS) issued by the Mexican Board of Financial Reporting Standards (CINIF for its acronym in Spanish) calls for the process which provides for the supplementary use of FRS A-8 and, only where International Financial Reporting Standards (IFRS) to which FRS A-8 refers do not provide a solution to the accounting recognition, may a supplementary standard belonging to any other regulatory framework be used, provided that the totality of requirements set forth in such FRS are met. Supplementary use of standards is as follows: Generally Accepted Accounting Principles in the United States of America (US GAAP) and any other accounting standard that is part of a formal and recognized set of standards that does not contravene the requirements of Criteria A-4, “Supplementary use of the accounting criteria” of the CNBV.

b) Use of estimates and judgments

The preparation of consolidated financial statements requires Management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities is included in the following notes:

- Note 3d and 6 – Investments securities;
- Note 3e and 7 – Repurchase/resale agreements;
- Note 3f and 8 – Derivatives;
- Note 3i and 9b – Allowance for loan losses;
- Note 3s and 18 – Employee Benefits;
- Note 3t and 19 – Income Tax (IT) and Employee Statutory Profit Sharing (ESPS).

c) Functional and reporting currency

The consolidated financial statements are presented in Mexican pesos, which is the local currency and the functional currency.

For purposes of disclosure in the Notes to Consolidated Financial Statements, when referred to pesos, MXP or “$”, it means millions of Mexican pesos, except when it is mentioned different, and USD or Dollars, it means U.S. Dollars.

(3) *Summary of significant accounting policies -*

The accounting policies set out below have been consistently applied in the preparation of these consolidated financial statements, for the years presented.

(Millions of Mexican pesos, except value of UDI)

(a) Recognition of the effects of inflation-

The accompanying consolidated financial statements include the recognition of the effects of inflation on the financial information through December 31, 2007, the date on which it is considered an inflationary economic environment ended (cumulative inflation greater than 26% in the last three-year period) and a noninflationary economic environment began by factors derived from the value of the Investment Unit (UDI for its acronym in Spanish) that is a unit of measurement, whose value is determined by the Mexican Central Bank based on the rate of inflation. Annual and cumulative inflation rates of the last three years and the value of UDI used to determine inflation, are as follows:

		Inflation	
December 31	**UDI**	**Of the year**	**Accumulated**
2020	6.605597	3.23%	11.31%
2019	6.399018	2.77%	15.03%
2018	6.226631	4.92%	15.71%

(b) Principles of consolidation-

The consolidated financial statements include those of the Institution and those of its subsidiary over which it has control, Desarrollo Inmobiliario Especializado, S. A. de C. V. (DIESA). The transactions, balances and profits and losses unrealized as a result of the transactions between the Institution and DIESA have been eliminated in preparing the consolidated financial statements. The consolidation was based on the financial statements of DIESA, as of December 31, 2020 and 2019 and for the years then ended, which have been prepared in accordance with the Accounting Criteria for credit institutions in Mexico.

(c) Cash and cash equivalents-

This comprises cash, 24, 48 and 72-hour purchase and sale transactions of currencies, interbank loans with equal maturities or less than three days (Call Money transactions) deposits in national and foreign institutions, deposits in the Treasury of the Federation and Central Bank, which include the monetary regulatory deposits that the Institution is required to maintain in accordance with the provisions issued by the Central Bank for such purpose. Such deposits do not have a term and bear interest at a bank funding rate and are recognized as restricted funds.

Cash and cash equivalents are recorded and carried at nominal value. Interest income is recognized in the statements of income as incurred.

Cash and cash equivalents in foreign currency and purchase and sale commitments of currencies are valued at the exchange rate published by Mexican Central Bank as of the date of preparation of these consolidated financial statements.

This item also includes the balance of short-term interbank loans (call money granted) when its maturity does not exceed three business days, as well as the currencies acquired, which settlement is agreed on a date following the date it is entered into, recognizing them in both cases as restricted funds.

Interest earned on investments in bank promissory notes, call money transactions, auctions of deposits and deposits in the Mexican Central Bank, are recognized as earning, as accrued, under the item “Interest income”.

(d) Investments in securities-

Investments in securities include debt and equity securities, which are classified on the basis of the intended use assigned by Institution’s management at the time they are acquired as “for trading”, “available for sale” or “held to maturity”.

They are initially recorded at fair value, which includes any discount or surcharge. The costs of transactions involving the acquisition of trading securities are recognized in the statement of income for the period, and those related to securities available-for-sale or held-to-maturity are recognized as part of the investment.

Trading securities-

This includes securities held by management to operate in the market that are recorded at fair value on acquisition date. Those securities are initially and subsequently valued at the fair value provided by market makers authorized by the CNBV, and the effects of valuation are recognized in the year’s income as part of the gains (losses) from valuation under the item “Financial intermediation income” and when they are sold, the gains (losses) from valuation which were previously recognized in the statement of income are reclassified, as part of “Result from purchases/sales” under the item mentioned above.

Available for sale securities-

This category includes debt securities and shares acquired for a purpose other than securities held for trading or held to maturity, and are recognized upon acquisition at their fair value. Those securities are subsequently valued at the fair value provided by market makers authorized by the CNBV, and any valuation adjustments are recognized in stockholders’ equity under the item “Result from valuation of available for sale securities”. The result for valuation that has been previously recognized in stockholders´ equity is reclassified upon sale to be recognized in the consolidated statement of income.

Equity securities are valued at fair value using prices supplied by authorized market makers, and if it is not possible to obtain those values, they are valued using the equity method as established in FRS C-7 “Investments in associated companies and other permanent investments”.

Held to maturity securities -

These are debt securities, which have fixed or defined payments and maturities that the Institution has the intent and capacity to hold until maturity. These securities are initially recognized at fair value and are valued at amortized cost; the fair value affected by interest accrued, including amortization of the premium or discount and any transaction costs that may have been recorded. At the date of sale of those securities, the difference between the net realizable value and the carrying value is recorded in the consolidated statement of income under the caption “Financial intermediation income”.

Impairment of a security-

The Institution evaluated whether or not there was objective evidence that a security had been impaired by considering the following matters, among others: significant financial difficulties of the issuer of the security; the likelihood of the issuer filing for bankruptcy or undergoing another type of financial reorganization; breach of the contractual clauses; the disappearance of an active market for that specific security due to financial difficulties, or the existence of a measurable decrease in estimated future cash flows. Based on the aforementioned evaluation, the Institution did not observe objective evidence of impairment of the securities as of December 31, 2020 and 2019.

When there is objective evidence indicating a security available for sale or held to maturity has been impaired, the carrying amount value of the security is modified, and the amount of the loss is recognized in the results of the fiscal year in the item “Financial intermediation income”. If in subsequent periods the fair value of the impaired security increases or the amount of the impairment loss decreases, the impairment loss previously recognized is reversed in the results of the fiscal year. No impairment loss is reversed in net equity instrument classified as available for sale.

Value date transactions-

For transactions agreed to be settled immediately or with a value date on the same day, on the transaction date, the Institution records in clearing accounts the right and/or obligation under the items of “Other accounts receivable, net” and “Other accounts payable”, creditors as per “settlement transactions”, respectively, as long as their settlement is not carried out.

Transfer between categories-

Transfers can be made from the category “Held to maturity securities” to “Available for sale securities”, provided that it is not intended to or able to hold them to maturity. Any type of category may be reclassified to “Held to maturity securities” and from “Trading instruments” to “Available for sale securities” under extraordinary circumstances upon explicit authorization from the CNBV. Furthermore, the sale of “Held to maturity securities” must be reported to the CNBV. For the years ended on December 31, 2020 and 2019, the Institution did not enter into any transfers between categories, and/or sales of held to maturity securities.

(e) Repurchase/resale agreements-

The repurchase/resale agreements that do not comply with the terms of criterion C-1 “Recognition and withdrawals of financial assets”, are treated as collateralized financing transactions, which reflects the economic substance of those transactions. In “cash oriented” transactions, the intention as seller is to obtain cash financing and the intention as buyer is to invest its excess of cash, and in the “securities-oriented transactions”, the buyer is intended to have access to certain particular securities and the seller is intended to increase the yields of the investment securities.

Acting as a seller on resale agreements-

On the contract date of the repurchase agreements, either cash is received or a debit clearing account is created as well as a payable account valued at the price agreed at origination, which is presented as "Creditors from repurchase/resale agreements", and represents the obligation to repay the cash to the seller at a future date. Throughout the term of the repurchase agreements, the payable accounts are valued at amortized cost and the corresponding accrued interest is recorded in the results for the year, in accordance with the effective interest rate method, under the item "Interest expense". Financial assets transferred to the seller are reclassified in the balance sheet, and presented as restricted securities, which continue to be valued in accordance with the accounting policy of the corresponding asset classification.

Acting as a buyer on repurchase agreements-

On the contract date of the repurchase agreements, either a cash or cash equivalent payment are made, or a clearing account is recognized, as a receivable account valued at the origination price is under the caption "Debtors from repurchase/resale agreements", and represents the right to receive the cash at a future date. Throughout the term of the repurchase agreements, the receivable accounts are valued at amortized cost and the corresponding accrued interest is recognized in the results for the year, in accordance with the effective interest rate method, under the item "Interest income".

The Institution, acting as buyer, recognized the collateral received in memorandum accounts following, and for valuation purposes the provisions under the criteria B-9 “Asset in trust or under administration”. Acting as seller, the financial asset is reclassified in the consolidated general balance sheet showed as restricted.

In case that the Institution, acting as buyer, sells the collateral or pledges it as a guarantee, the inflow of resources obtained as a result of the transaction is recognized, with an account payable for the obligation to repay the collateral to the seller this is carried at its fair value in the case of sale or, if it pledged as a guarantee in the other repurchase transaction, is measured at its amortized cost. Such account payable is offset with the accounts receivable that is recognized when the Institution acts as seller and, the debt or credit balance is recorded in the caption “Debtors on repurchase /resale Agreements” or in “Collaterals sold or pledged”, as applicable.

(f) Derivative financial instruments-

The Institution carries out operations with derivative financial instruments held for trading, in order to compensate market risks, coming from the variations in exchange and interest rates, as well as from counterparty risk and trading purposes, aiming at obtaining profit in accordance with the policies and limits established by the Comprehensive Risk Management Committee (CAIR for its acronym in Spanish), and with the accounting criteria B-5 “Derivative instruments and hedge operations” issued by the CNBV, the hedge operations carried out by the Institution were classified as fair value.

All derivative financial instruments for trading or hedging are recognized in the balance sheet as assets and liabilities, depending on the rights or obligations specified in the confirmation of the terms agreed between the parties involved.

Futures and forward contracts

As a participant in the futures market, the Institution hedges its risk positions regarding the relation between assets and liabilities in US Dollars, and for purchase/sale of Mexican pesos against US Dollars, or of the US Dollar against other foreign currencies.

Operations carried out in futures markets for trading purposes are settled in Mexican pesos against the US Dollar and they are offered to borrowers as part of credit support for financing programs foreign trade operations.

Operations carried out in the futures market are performed with banking institutions that have investment grade credit ratings issued by authorized risk rating agencies, which considerably mitigates the related credit and legal risks.

Operations carried out by the Institution in futures markets that are for trading purposes. The fair value of rights and obligations of those operations is the theoretical price determined as per formal valuation techniques. That balance represents the difference between the fair value of the operation and the stipulated forward price. The results of those instruments are shown as financial intermediation income.

As of December 31, 2020 and 2019 there are no current operations in future markets or forward contracts.

Swap Operations

Operations contracted by the Institution with this type of instrument are considered fair value hedges, since their purpose is to hedge open risk positions of interest rates and currencies.

Swap operations are carried out to hedge interest rate or exchange rate risk, depending on the condition of the funding received and the placement of loans with borrowers. The foregoing makes it possible to exchange similar flows of fixed interest rates for variable interest rates, or otherwise flows of different currencies against the US Dollar, while mitigating factors that give rise to an open risk position.

Swap operations are contracted with financial entities that have been issued investment grade credit ratings by an authorized risk rating agency, which limits the credit and legal risks inherent in this type of operations.

In addition to the hedge swap operations, the Institution has a portfolio of business swaps, which are agreed with Institutional borrowers in order to hedge the exchange and interest rates in which they incur when having a credit operation with the Institution. Although the operation is agreed with a borrower, the Institution contracts the economic coverage with a Financial Institution in order to mitigate the Institution's exposure to interest rate and/or exchange rate risk.

Options contracts

Options are agreements establishing the right, not yet the obligation for the buyer to purchase or sell a financial or underlying asset at a determined price called an exercise price on a settled date or at a determined period. Option agreements involve two parties where the buyer of the option pays a premium on the acquisition thereof, obtains a right, yet not an obligation and the party issuing or selling the option receives a premium and in turn acquires an obligation, yet not a right.

The Institution´s portfolio of options is made up of the sale thereof to institutional clients in order to cover their exposure to interest rate and exchange rate risk, as well as by acquiring the economic coverage of those sales with the same conditions. The contracting of the economic hedge is carried out in order to mitigate the exposure to the rate and/or exchange risk of the Institution.

Trading derivatives

The valuation effect of trading derivatives is recognized in the consolidated balance sheet and the consolidated statement of income under the item “Derivatives” and within the valuation result in the item “Financial intermediation income”, respectively.

Hedging derivatives

The profit or loss that results from valuating a hedge instrument at fair value is recognized in the statement of income and the valuation result of the hedged transaction is recognized in the balance sheet as an adjustment to the book value of the item and is recognized in the statement income, including when the hedged item is an investment classified as available for sale securities.

The Institution’s risk management area developed the “Effectiveness model”, which allows measuring changes in the fair value or cash flows of hedge instruments based on a hedge factor or ratio that fluctuates between 80% and 125% of the inverse correlation.

(g) Offsetting clearing accounts-

Amounts receivable or payable for investment securities, repurchase/resale agreements, securities loans and/or derivative financial instruments which have expired but have not been settled are recorded in clearing accounts under the items “Other accounts receivable, net” and “Sundry creditors and other accounts payable”, as well as the amounts receivable or payable for the purchase or sale of foreign currencies, which are not for immediate settlement or those with a same day value date.

The debit or credit balances of the clearing accounts resulting from purchase/sale transactions of currencies, investment securities, repurchase agreements and derivatives are offset, provided that it is set forth by contractual right to offset the amounts recorded and at the same time, it is intended to settle them on a net basis or realize the asset and settle the liability simultaneously. Assets and liabilities in transactions of the same nature or arising from the same contract are also offset, provided that they have the same maturity term and are simultaneously settled.

(h) Loan portfolio-

Loans granted are recognized as an assets as from the date of disbursement of the respective funds. The amount given to borrowers is supplemented with the accrued interest based on the loan payment arrangement.

Interest accrued on current loan operations is recognized and applied to income as it is incurred.

Interest collected in advance is recognized as advance collections under deferred loans and are amortized over the life of the loan by the straight-line method against income for the period.

Commissions collected upon initial credit lines, includes commissions for loans restructured are recorded as a deferred credit which are amortized against income for the year using the straight-line method over the life of the loan. Commissions accrued after the loan is granted are recorded on the date they are generated against income for the period.

The undrawn lines of credit are recorded in memorandum accounts, under the item “Credit Commitments”. The operations of guarantees and letters of credit are recorded in memorandum accounts and when they are exercised they are transferred to the loan portfolio.

The following items are considered to qualify as past due loan portfolio:

a) *Loans payable in a single amortization of capital and interest at maturity* - that are not covered in a period of 30 or more calendar days past due.

b) *Loans payable in a single amortization of capital at maturity and periodic interest payments* - when interest is 90 or more calendar days past due or capital is 30 or more days past due.

c) *Loans payable in installments towards capital and interest* - after 90 calendar days past due.

d) *Revolving loans* - when invoices are behind two periods or 60 or more calendar days past due.

e) The borrower is in bankruptcy in accordance with the Bankruptcy Law (LCM for its acronym in Spanish) and such borrower continues making payments in the terms of the LCM. That borrower is transferred to the past due loan portfolio if the originally agreed terms have not been settled in fully.

Interest accrued in the period in which the loan is considered to be overdue is recorded in the memorandum accounts as income when collected and interest accrued at the date on which it is no longer accumulated is fully reserved.

Restructured and renewed loans

Restructured loans remain in the past-due loan portfolio until there is evidence of sustained payment.

Renewed loans where the borrower does not pay interest accrued and 25% of the principal amount of the loan on a timely basis are considered past due until there is evidence of timely payment.

The renewed or restructured current loans differing from those described in the preceding paragraph continue to be performing loans in the following terms:

a) If the restructuring or renewal is carried out before at least 80% of the original term of the loan has elapsed, and if all accrued interest has been paid, along with the principal of the original loan that should have been covered at the date of the reorganization or renewal.

b) If the restructuring or renewal is carried out in the last 20% of the original term of the loan and if all accrued interest has been paid, along with the principal of the original amount of the loan that should have been covered at the date of the reorganization or renewal, and 60% of the original amount of the loan.

Restructuring of a loan is not considered to occur when the total amount of principal and interest payable have been covered at the realization date and said payment modifies one or several of the following original loan conditions:

i. Guarantees: only when they imply the extension or replacement of guarantees for others of a better quality;

ii. Interest rate: when the agreed interest rate is improved;

iii. Currency: provided the rate of the new currency is applied and;

iv. Payment date: only when the change does not result in exceeding or modifying the frequency of the payments. In no case may the change in payment date allow the forgiveness of payment due in any period.

Troubled debt portfolio

Commercial loans are considered to be current and past due loans with regard to which it is determined, based on current information and facts and on a review process, that they will most likely not be recovered in full, either the principal or the interest, in the originally agreed terms and conditions.

Suspension of interest accrual-

Interest incurred on loans stops being accrued when the unpaid principal of the loan is considered to be overdue.

As long as a loan is classified as part of the past due portfolio, control over interest accrued is kept in memorandum accounts. If past due interest is collected, it is recognized directly in income for the year.

Loans are transferred to the current loan portfolio when past due balances are settled in full (principal and interest, among others) or, in the case of restructured or renewed loans, when there is evidence of sustained payment on the loan, as per the Accounting Criteria.

On March 11, 2020, the World Health Organization declared the outbreak of a new coronavirus SAR-CoV2 (COVID-19) as a pandemic, leading to uncertainty in the global economy. The Government of Mexico declared a health emergency, for which the Institution took the corresponding measures in support of its borrowers in order to mitigate the possible impacts on its economic activity, which are described below:

SPECIAL ACCOUNTING CRITERIA OF THE CNBV IN THE FACE OF CONTINGENCY CAUSED BY THE SARS-CoV2 (COVID-19) VIRUS, APPLICABLE TO CREDIT INSTITUTIONS.

a) Based on article 175 of the "General provisions applicable to credit institutions" and in response to the "Agreement by which the General Health Council recognizes the SAR-CoV2 virus (COVID-19) epidemic in Mexico, as a serious disease of priority attention, as well as the preparation and response activities in the face of such pandemic ", published in the Official Gazette of the Federation on March 23, 2020, and the negative impact that it is generating in various activities of the economy, the CNBV temporarily issued special accounting criteria through Official Letters P285/2020, P293/2020 and P325/2020 of March 26, April 15 and June 23, 2020, respectively.

   The CNBV issued special accounting criteria in order to protect the economy of individuals and companies, which due to the economic impact of the pandemic could have problems to cover their loans and strengthen the liquidity of families and companies, enabling borrowers to recover before reactivating their payments.

Due to this, the restructuring or renewal of consumer, housing and commercial loans in force as of March 31, 2020 (until June 23, 2020, the established date was February 28, 2020, with the exception of microcredits), without affecting their credit history or the accumulation of delinquent interest, granting credit institutions the facility of not registering restructured or renewed credits as past due portfolio, which led to not increasing reserves during the moratorium on payments. The deadline to carry out the restructuring or renewal procedures was in force until July 31, 2020 (until June 23, 2020, the established date was June 26, 2020).

In this regard, the Internal Credit Committee of BANCOMEXT authorized on March 31, 2020, the "Guidelines for the rescheduling of repayments that borrowers maintain with BANCOMEXT in light of the situation caused by the SARS-CoV2 virus (COVID-19)" (the Guidelines), with the objective that borrowers can access a repayment rescheduling scheme, due to the pandemic caused by the COVID-19 virus, as well as supporting companies through the granting of financing for their capital needs of work, so that they can maintain jobs and make the most essential expenses to continue with their operation.

The Guidelines were issued in compliance with Criterion B-6 "Loan Portfolio", and additionally included the application of the special accounting criteria issued by the CNBV. As of March 31, 2020, the special accounting criteria described above had not been applied, starting their application in restructured loans from the second quarter of the year and until the date established by the Authority.

b) The special accounting criteria applied as of April 2020 and the standards that should have been applied in accordance with the current accounting criteria, are detailed below:

i. **Credits with a single payment of principal at maturity and periodic interest payments, as well as credits with a single payment of principal and interest at maturity.-** Credits that were restructured with a maturity term of no more than 6 months from the date on which have expired, registered as a portfolio in force on February 28, 2020 and finalizing the restructuring procedures no later than 120 calendar days after that date, they were considered as a current portfolio as they did not apply, in accordance with the special accounting criteria, the provisions of paragraph 79 of Criterion B-6, which states that when these loans are renewed at any time, they will be considered past due portfolio as long as there is no evidence of sustained payment.

ii. **Loans with periodic payments of principal and interest.-** Loans that were restructured with a maturity period of no more than 6 months from the date on which they have expired, registered as a portfolio in force as of February 28, 2020 and completing the procedures for restructuring no later than 120 calendar days after the aforementioned date, were considered in force at not applying, according to the accounting criteria, the requirements established in paragraphs 82 and 84 of Criterion B-6, which indicate for this type of credits the following:

- Without at least 80% of the original term of the loan having elapsed, it will be considered that they continue to be valid only when the borrower has covered all the accrued interest and the principal of the original amount of the loan, which on the renewal date or restructuring should have been covered (Paragraph 82).

- During the final 20% of the original term of the loan, they will be considered valid only when the borrower has paid all the accrued interest and the principal of the original amount of the loan that should have been covered on the renewal or restructuring date, as well as having covered 60% of the original amount of the credit (Paragraph 84).

These two types of credit were not considered as restructured credits in accordance with the provisions of paragraph 40 of Criterion B-6, nor were they reported as past due credits before the credit information companies.

It is important to note that the Institution with respect to the cases in which the accounting criteria were applied, did not carry out modifications to the original credit conditions that did not imply a total or partial deferral of the principal and/or interests and that were different from those established in paragraphs 40 and 89 of Criterion B-6.

With Official Letter P325/2020 as of June 23, 2020, the CNBV allowed the restructuring or renewal of consumer, housing and commercial loans in force as of March 31, 2020 and extended the deadline to carry out the procedures to July 31, 2020.

c) In BANCOMEXT, the “Guidelines for rescheduling repayments that borrowers maintain with BANCOMEXT in the event of the situation caused by the SARS-CoV2 virus (COVID-19)” authorized by the Internal Credit Committee, were issued in compliance with Criterion B-6, so the main rescheduling carried out adhered to the current accounting standard.

The balance of these loans restructured according to Criterion B-6 amounts to $41,606 as of December 31, 2020.

Additionally, the Guidelines considered the application of the special accounting criteria issued by the CNBV, which allowed, mainly, to defer the payment of accrued interest on the restructuring date.

(Millions of Mexican pesos)

The balance of these loans restructured pursuant to the application of the special accounting criteria amounts to $12,532 as of December 31, 2020.

In the case of guarantees: (i) BANCOMEXT authorized the financial intermediaries to extend up to 6 months the original maturity date of the guaranteed loans, derived from the partial or total deferral of the payment of capital or capital and interest granted to its borrowers, (ii) to defer the collection of commissions from Financial Intermediaries for up to 6 months, exclusively when they grant their borrowers the benefit of deferring the payment of principal and interest and only for the proportional part of each portfolio that corresponds to the credits receiving such benefit and (iii) to extend the maximum term of the guarantee granted to revolving loans up to 6 months in those loans that receive the benefit of deferred payments. The balance as of December 31, 2020 of the guarantees to which the rescheduling was applied under the same terms and conditions as the financial intermediary amounts to $3,124.

In the first quarter of the year, the special accounting criteria had not been applied in the rescheduling of loans; as of the second quarter of the year, the rescheduling of loans under the special accounting criteria were reported to the CNBV in compliance with Official Letters 122-2/4950/2020 of March 24, 2020 through biweekly reports; 122-2/4975/2020 with monthly reports and 122-2/5020/2020 with weekly reports. These loans are detailed below:

RESCHEDULING OF LOANS UNDER THE SPECIAL ACCOUNTING CRITERIA AS OF DECEMBER 31, 2020

TYPE OF LOAN	TYPE OF OPERATION	BALANCES AS OF 31/DEC/2020
CURRENT LOAN PORTFOLIO		
Commercial Loans		**$ 12,511**
Business or commercial activities	Restructuring	8,260
Financial entities	Restructuring	4,251
Consumer Loans	Restructuring	**3**
Mortgage Loans		**18**
Medium-size and residential	Restructuring	18
Total		**$ 12,532**

It is important to note that the rescheduling of these borrowers was carried out in support of the liquidity of those that required it, so if the special accounting criteria had not existed, the payment of interest accrued on the date of the restructuring would probably have been required in compliance with Criterion B-6, maintaining in the same way the portfolio in force.

Therefore, if the special accounting criteria had not been applied, the portfolio would not have been migrated to past due portfolio, so the Balance Sheet would not have been affected by this concept.

However, even when the special accounting criteria allows not to increase the reserves during the payment moratorium, in a prudent manner, the Institution determined to increase the level of reserves of the borrowers who had requested a rescheduling of their payments, including those related to the selective guarantees granted through financial intermediaries.

The foregoing represented the additional creation of reserves for $244, of which $70 corresponded to restructured borrowings based on special accounting criteria; the effects of these amounts are already impacted in the Income Statement as of December 31, 2020.

The effect of these prudential credit reserves on the ICAP as of December 31, 2020 is 2.87 basis points, so the ICAP to date reasonably reflects its level of capitalization.

COVID ACCOUNTING FACILITIES OF THE CNBV IN THE FACE OF THE CONTINGENCY CAUSED BY THE SARS-CoV2 (COVID-19) VIRUS, APPLICABLE TO CREDIT INSTITUTIONS.

a) Based on article 175 of the “General provisions applicable to credit institutions” and in response to the “Agreement by which the General Health Council recognizes the SAR-CoV2 virus (COVID-19) epidemic in Mexico, as a serious disease of priority attention, as well as the preparation and response activities in the face of such pandemic ”, published in the Official Gazette of the Federation on March 23, 2020, and the negative impact that it is generating in various activities of the economy, on September 24, 2020, the Ministry of Finance, through the CNBV, issued a new package of measures for credit restructuring through temporary regulatory facilities in accounting matters (the “Covid Accounting Facilities”), as well as the temporary authorization in matters of additional estimates and capital, through the Official Letters P417/2020, and P418/2020 and their complement through Official Letters P/429 and P/430 of October 8, 2020 and P/450 of November 6, 2020.

   The Covid Accounting Facilities allow the restructuring of credits with lower interest rates, extension of the payment term and lower installments, and include regulatory measures to carry out loan restructuring, release of specific reserves and encourage the creation of additional reserves that can be recognized in the net capital.

   Those facilities may be applicable to the balances drawn down as of April 15, 2020 of loans that meet all of the following conditions: (i) that have been granted no later than March 31, 2020, (ii) that are recorded as effective as of March 31, 2020, (iii) that are not in the assumptions of articles 73, 73 Bis and 73 Bis 1 of the Credit Institutions Law, (iv) whose payment, no later than January 31, 2021, has been affected by the epidemic, (v) whose renewals, restructures or removals are duly formalized within a period that will expire on January 31, 2021.

In this regard, the Board of Directors of the Institution approved in its ordinary session of December 1, 2020, the support scheme called “Covid Regulatory Facilities”, for the borrowers of the Institution of credits and guarantees, as well as for the portfolio of former employees, which were affected by the pandemic in accordance with what was issued in the aforementioned official letters, so that they can access restructuring or renewal of their credits or guarantees, in order to continue their operations, keep their jobs and make the most essential expenses to face the economic impact caused by the pandemic, especially in the short and medium term.

These measures were applied by the Institution as of December 1, 2020, with a temporary validity and will be in force until the CNBV informs otherwise. The deadline established to formalize restructurings is January 31, 2021.

Under the Covid Regulatory Facilities, a second or subsequent renewal or restructuring may not be carried out, or a settlement of a loan that has already been renewed or restructured under the Facilities, even when the formalization period mentioned in the previous paragraph has not expired.

The Covid Regulatory Facilities considered the possibility of carrying out renovations or restructuring, whose registration considered some flexibilities to the provisions of Criterion B-6 “Loan Portfolio” contained in annex 33 of the Sole Banking Notice, reflecting an economic benefit for the borrowers and that increases the probability of payment, also being able to consider a decrease in the interest rate or a scheme of deductions, waivers, bonuses and discounts, for which the schemes should have been subject to the following:

- i) To reduce the nominal amount of periodic payments.
- ii) If applicable, the original term of the loan may be extended.
- iii) The nominal amount of the new amortization table must be subject to the limits established by the CNBV.

For second floor operations, the support will apply when the financial intermediary has granted the benefit to the final borrower and the credits have been originally funded with BANCOMEXT resources as of April 15, 2020.

On November 9, 2020, the CNBV issued the official letter P477/2020 regarding regulatory facilities for credit institutions that implement Institutional Restructuring Programs (PIR for its acronym in Spanish). As of December 31, 2020, the Institution did not implement Institutional Restructuring Programs.

b) The Covid Accounting Facilities applied as of December 1, 2020 and the standards that should have been applied in accordance with current accounting criteria, are detailed below:

The standards that should have been applied for the renovations or restructurings carried out under the Covid Accounting Facilities are those set forth in Criterion B-6 "Loan Portfolio", contained in Annex 33 of the Provisions of the Sole Banking Notice.

i. In the case of loans with a single payment of principal at maturity, regardless of whether the interests are paid periodically or at maturity, which are restructured during their term or are renewed, they will be considered as a current portfolio as long as there is evidence of sustained payment and any of the following assumptions occurs:

- That the borrower pays at least 10% of the original amount of the loan at the time of restructuring or renewal,

- That the borrower pays the amount equivalent to 90 days of accrued interest in accordance with the new payment scheme established as a result of the renewal or restructuring.

Those credits were considered current since the requirements established in paragraph 79 of Criterion B-6 were not applied, in accordance with the Covid Accounting Facilities, which state that these restructurings or renewals should be considered as past due portfolio as long as there is no evidence of sustained payments and occurs any of the assumptions established in paragraph 38 of the aforementioned Criterion:

- That the borrower pays at least 20% of the original amount of the loan at the time of restructuring or renewal,

- That the borrower pays the amount equivalent to 90 days of accrued interest in accordance with the new payment scheme established as a result of the renewal or restructuring.

ii. Credits with characteristics other than those indicated in the previous paragraph that are restructured or renewed, that are recorded in the accounting as current and that have amounts of principal or interest due pending payment on the date of the restructuring or renewal, may be kept as a current portfolio even when the borrower does not settle all the payments to which he is obliged in terms of the contract on the date of restructuring or renewal, as long as the amount of such unpaid amounts due is integrated into the balance of the amount of the restructuring or renewal or, if appropriate, that the amount is removed or canceled.

Such loans were considered in force since the requirements established in paragraphs 82 and 84 of Criterion B-6 were not applied, in accordance with the Covid Accounting Facilities, which indicate the following for this type of loans:

- Without at least 80% of the original term of the loan having elapsed, it will be considered that they continue to be valid only when the borrower has covered all the accrued interest and the principal of the original amount of the loan, which on the renewal date or restructuring should have been covered (Paragraph 82).

- During the final 20% of the original term of the loan, they will be considered valid only when the borrower has paid all the accrued interest and the principal of the original amount of the loan that should have been covered on the renewal or restructuring date, as well as having covered 60% of the original amount of the credit (Paragraph 84).

iii. Overdue loans that are restructured or renewed will remain in the past due portfolio as long as there is no evidence of sustained payment. Sustained payment of the credit is considered to be the payment of the borrower, within a period of no more than 5 business days following the contractually established date, for the total amount of principal and interest due, at least two consecutive repayments of the payment scheme of the credit, or in the case of credits with amortizations that cover periods greater than 60 calendar days, the payment of an exhibition.

Such loans were considered current as the requirements established in paragraph 78 of criterion B-6 were not applied, in accordance with the Covid Accounting Facilities, which states that these restructurings or renewals should be considered past due portfolio as long as there is no evidence of sustained payments.

In the event that the restructurings or renovations include write-offs, forgiveness, bonuses or discounts on the principal of the loan, which result in lower payments for borrowers, the establishment of preventive estimates for credit risks may be deferred. When the amount of the deductions, forgiveness, bonuses and discounts exceeds the balance of the estimate: Estimates must be made up to the amount of the difference, on the date of the deduction, forgiveness, bonus or discount or in a straight-line, in a period that does not exceed 12 months, as long as they are loans registered as a portfolio in force as of July 31, 2020. It should be noted that the Institution did not grant deductions, forgiveness or discounts as of December 31, 2020.

As from December 1, 2020, the Covid Accounting Facilities were applied in loan restructurings, with a balance of $2,376 as of December 31, 2020. It is important to note that the restructuring of these borrowers was carried out in support of their liquidity, therefore, if the facility had not existed, the payment of interest accrued on the restructuring date would probably have been required in compliance with Criterion B-6, keeping the portfolio in force in the same way.

It should be noted that, at the time, these borrowers were also supported with the Special Accounting Criteria, so the effect on the Income Statement and ICAP as of December 31, 2020 derived from the creation of prudential reserves is already impacted as stated in the previous section.

Similarly, the Institution did not apply the regulatory facilities regarding reserves and capital as of December 31, 2020.

(i) Allowance for loan losses-

The commercial loan portfolio was rated on December 31, 2020 and 2019 in adherence to loan portfolio provisions issued by the CNBV on June 24, 2013 and its subsequent amendments. That rating is based on an expected loss model that considers the likelihood of default, the severity of the loss and the exposure to default, while the consumer loan and mortgage portfolio was rated as per the methodology for rating nonrevolving consumer loan and mortgage portfolios referred to in point A of Sections One and Two of Chapter V, Title Two, of the General Provisions applicable to Credit Institutions published in the amending resolution of October 25, 2010 and subsequent amendment.

Each of these methodologies are explained as follow:

General Methodology based in expected Credit Loss Model for Credit Risk

The amount of the preventive reserve for each loan is the result of applying the following formula:

$$R_i = PI_i \ X \ SP_i \ X \ EI_i$$

Where:

R_i	Amount of allowance for loan losses to be set up
PI_i	Probability of default on the loan
SP_i	Severity of loss
EI_i	Exposure to default on the loan

EI_i must be calculated monthly and PI_i and SP_i, at least quarterly

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The preventive estimates for the commercial loan portfolio are classified according to the degrees of risk and the percentages as follows:

Risk levels	Range Commercial Percentage
A-1	0 to 0.9
A-2	0.901 to 1.5
B-1	1.501 to 2.0
B-2	2.001 to 2.50
B-3	2.501 to 5.0
C-1	5.001 to 10.0
C-2	10.001 to 15.5
D	15.501 to 45.0
E	Above 45.0

In rating the commercial loan portfolio based on the expected loss model, we took the following into consideration:

1. The commercial loan portfolio was classified in accordance with the Accounting Criteria applicable to the Institution, based on the following:

I. Federal and municipal entities (Not applicable to the Institution).

II. Projects with own source of payment (Appendix 19).

III. Trustees acting under a trust, not included in the above section, and loan arrangements commonly referred to as “structured” (Not applicable to the Institution).

IV. Financial Entities (Appendix 20).

V. Business entities not included in the above sections and individuals engaged in business operations:

- Net income or net annual sales < 14 million UDI´s (Appendix 21).
  - ✓ “Borrowers with no late payments” in the last 12 months.
  - ✓ “Borrowers with late payments” or at least one day in the last 12 months.

- Net income or net annual sales ≥ 14 million UDI´s (Appendix 22).
  - ✓ Small corporations: 14 million UDI´s ≥ Annual net sales < 54 million UDI´s.
  - ✓ Corporations: 54 million UDI´s ≥ Annual net sales < 216 million UDI´s.
  - ✓ Large corporations: Annual net sales ≥ 216 million UDI´s.

Methodology for rating consumer and mortgage loan portfolios–

Rating of the non-revolving consumer loan and mortgage loan portfolios is determined based on the estimated result of the effects of the probability of default, or the severity of the loss associated to the value and nature of loan guarantees. Those portfolios originate from loans made to employees, who after concluding their employment relationship with the Institution, form part of the loan portfolio in accordance with the regulations established by the CNBV.

Therefore, the Institution calculates the allowance for loan losses based on the foregoing, which is then recorded in income for the period in question, and it periodically evaluates whether a past due loan must remain on the balance sheet, or instead be written-off, which is done by canceling the unpaid balance of the loan against the allowance for loan losses.

The additional reserves recognized by the Institution are those set up to cover risks that are not considered in the different methodologies for rating loan portfolios, and whose origin, methodology for determination thereof, amount and term were all reported to the CNBV prior to their creation. As of December 31, 2020 and 2019, the Institution recorded additional allowance for loan losses for $400 and $464 respectively.

In order to determine the additional estimates reported to the CNBV that the Institution will need to establish in the 2020 fiscal year, the term of the financing and the concentration in the average balance per loan were considered, which reflects a greater exposure with respect to Commercial Banking, both in term, concentration, amount, destination and currency. Similarly, a comparison was made between the Institution's current past-due portfolio and the average of the Commercial Banking past-due portfolio, with the assumption that the Institution´s past-due portfolio would tend to the banking average and reach a percentage similar to that of the Commercial Banking in the short term, in addition to the above, the foreign exchange impact derived from the pandemic scenario presented worldwide by the so-called COVID-19 was considered.

Recovery of loans previously written-off is recognized in income for the period as they are charged, in the item of allowance for loan losses in the results of the period.

The surplus in the allowance for loan losses is canceled against income for the period, affecting the items from which it originated i.e., the loan loss reserve.

The Institution periodically evaluates whether a past due loan must remain on the balance sheet or instead be written-off. If applicable, the balance is written off by canceling the unpaid balance of the loan against the allowance for loan losses. If the balance of the loan that is to be written-off exceeds the amount of the related reserve, the allowance is increased up to the amount of the difference.

Write off, quitclaims, rebates and discounts, whether partial or total, are recorded with a charge to the allowance for loan losses. If the amount exceeds the balance of the reserve associated to the loan, estimates are first created up to the amount of the difference.

(j) Other accounts receivable, net-

Accounts receivable other than the Institution's loan portfolio and collection rights comprise, among others, loans made to officers and employees, favorable tax balances, transaction settlement accounts, collateral given in cash for derivative financial instrument operations and items directly related to the loan portfolio.

Loans made to officers and employees are collected through the payroll.

Accounts receivable from identified debtors whose maturity is agreed from the start at a term of more than 90 calendar days requires setting up a reserve that reflects the extent of their irrecoverability (60 days if the balances are not identified).

No such allowances are set up for favorable tax balances and transaction settlement accounts.

(k) Foreclosed assets or assets received in lieu payment-

These items are recognized at the lower of cost or fair value, less costs and expenses strictly indispensable incurred in the respective distribution.

If the carrying value of the asset giving rise to the distribution of the goods or the payment in kind is lower than the value of the foreclosed item, the value of the item is adjusted to the carrying value of the asset.

Assets acquired as a result of a foreclosure are recognized on the date on which the court sentence approving the foreclosure becomes final and conclusive. Assets received as payment in kind are recorded on the date on which the payment is signed or the asset ownership transfer is formalized.

On the basis of the Second Title "Prudential Provisions", Chapter V "Portfolio rating", Section VI, "Reserves for holding Foreclosed assets or assets received in lieu payment" of the accounting criteria for Financial Institutions in Mexico issued by the CNBV, the Institution creates additional provisions for potential loss in the value of items foreclosed judicially or extra-judicially, as well as collection rights and investments in securities.

The Institution prudentially adopted the policy of reserving 100% of foreclosed items or items received as payment in kind, in order to recognize recovery of the respective loan when the related items are sold.

In the case of items held for sale, the base distribution value used to determine the reserve is the carrying amount value less collections received. Such value is applied to reserve percentages in accordance with the tables shown in Section E of the Provisions.

(Millions of Mexican pesos)

a) Collection rights or movable property

Time elapsed as of foreclosure in Lieu payment (months)	Reserve percentage (%)
Up to 6	0
More than 6 and up to 12	10
More than 12 and up to 18	20
More than 18 and up to 24	45
More than 24 and up to 30	60
More than 30	100

b) Real property

Time elapsed as of foreclosure in Lieu payment (months)	Reserve percentage (%)
Up to 12	0
More than 12 and up to 24	10
More than 24 and up to 30	15
More than 30 and up to 36	25
More than 36 and up to 42	30
More than 42 and up to 48	35
More than 48 and up to 54	40
More than 54 and up to 60	50
More than 60	100

At the time of sale, the difference between the selling price and the book value of the foreclosed goods is applied to income for the period under other operating income (expenses).

(l) Property, furniture and equipment, net-

This item is as follows: i) acquisitions from January 1, 2008 valued at acquisition cost and ii) acquisitions until December 31, 2007, applying Investment Unit (UDI) factors up to December 31, 2007 to their acquisition costs. Until December 31, 1996, real property was valued at its net replacement cost based on appraisals performed by independent experts and quarterly factors communicated by the CNBV.

Depreciation of property is calculated in a straight-line method based on the remaining useful lives of assets determined by independent experts.

Depreciation of furniture and equipment is calculated by life expectancy method considering their acquisition cost less their residual value (straight-line method) over restated values.

Property, furniture and equipment are subject to annual impairment testing, only when signs of impairment are identified. Consequently, they are expressed at modified historical cost, less accumulated depreciation and, when applicable, impairment loss.

As of December 31, 2020 and 2019, there were no signs of impairment in dined-life long-lived assets, due to which annual impairment testing of their recoverable values was not required.

(m) Permanent investments in associates-

They are initially recorded based on the amounts invested, contributed or the acquisition value, and are subsequently valued by the equity method, which consists of adjusting the value of the investment, contribution or the acquisition value of the shares, by the proportional amount of comprehensive income or losses and the distribution of profit or capital reimbursements subsequent to the acquisition date. Losses in associated companies not arising from reductions in the percentage of equity are recognized proportionally in permanent investments.

The Institution's equity in the results of associates is shown separately in the consolidated statement of income.

Other permanent investments over which there is no significant influence for decision making purposes are valued at acquisition cost. Dividends arising from such investments are recognized in the income statement, for the period in which they are received, except when they are related to prior years´ profit to the acquisition of the investment, in which case they are deducted from permanent investments.

(n) Other assets, deferred charges, prepayments and intangibles-

Prepayments comprise expenses incurred by the Institution where the risks and benefits inherent in the goods to be acquired and services to be received have not been transferred yet. Prepayments are recorded at cost and are shown in the balance sheet under deferred charges, prepayments and intangible assets. Once the goods and/or services for which prepayments made are received, they are recognized as an asset or an expense in the income statement of the period, respectively.

Expenses incurred for issuing liabilities are amortized by the straight-line method considering the term of the security from which they arose.

(o) Deposits founding-

Liabilities incurred for fund attraction through certificates of deposit, fixed term deposits, banker's acceptances and promissory notes with yields payable at maturity are recorded based on the contractual value of the liability. Interest accrued is recognized in income of the period as an interest expense.

When securities are placed at a price other than their nominal value, in addition to the matter mentioned in the paragraph above, a deferred charge or credit is recorded, as applicable, on the difference between the nominal value of the securities and the cash received therefrom. That deferred credit or debit is amortized by the straight-line method against income for the period during the term of the securities from which it arises.

Securities placed at a discount that do not bear interest are initially recorded based on the cash received. The difference between the nominal value of the securities and the amount of cash mentioned above is recorded in the income of the period using the effective interest method.

(p) Due to banks and other institutions-

Liabilities arising from interbank loans are recorded based on the contractual value of the obligation; interest accrued is recognized directly in the Institution´s income as an interest expense. Commissions paid are recorded on the date they are generated in the results of the year, in the item of commissions and fees expenses.

(q) Provisions-

The Institution, based on the administration´s best knowledge of current events, makes liability provisions for those present obligations in which the transfer of assets or the provision of services is virtually inescapable and arises as a result of past events.

Additionally, the Institution sets up reserves for contingent liabilities resulting from lawsuits, according to the legal risk policies and procedures authorized by the Risk Management Committee (CAIR for its acronym in Spanish), which allows to identify and classify the judgments based on the progress in the procedural stages and the resolution of the legal instances.

(r) Sundry creditors and other accounts payable-

This item includes transaction settlement accounts, accounts receivable from margin accounts, receivables from collateral guarantees received in cash, sundry creditors and other accounts payable, which includes the negative balance of Cash and cash equivalents in accordance with the criterion B-1 “Cash and cash equivalents” must be shown as a liability.

(s) Employee benefits-

The Federal Labor Law establishes the obligation to make certain payments to employees who cease to work under certain conditions or who comply with certain requirements, as well as to pay the obligations established in the respective labor agreements.

New FRS D-3 “Employee benefits” came into force as of January 1, 2016, which establishes the concept of remeasurement of assets or liabilities from defined benefits and eliminates the possibility of deferring recognition of actuarial profits and losses directly in income, based on accrual. Therefore, said actuarial profits and losses must be immediately recorded in Other Comprehensive Income (OCI), and must be subsequently recycled to net profit or loss.

Based on the provisions of the Third Transitory Article of the Modifications to the General Provisions Applicable to Credit Institutions published in the Official Gazette of the Federation on December 31, 2015, the Institution opted to recognize 20% of remeasured accumulated actuarial gains or losses as from 2021, in a maximum period of 5 years. Those balances must be recognized at the end of each period, after providing timely notice of that option to the CNBV.

The Institution has plans in place for payment of pensions, seniority premiums and retirement benefits to its personnel in addition to those established in the Law.

Retirement benefit obligations are quantified under the projected unit-credit method, determined by an actuarial calculation performed by independent experts as of December 31, 2020 and 2019.

Employee benefits offered by the Institution to its employees, including defined benefit plans or defined contributions, are as follows:

Direct benefits (salaries, overtime, vacations, holidays and paid absences, etc.) are recognized in income as they accrue and the respective liabilities are expressed at nominal value given their short-term nature. Absences paid in conformity with legal or contractual provisions are non-cumulative.

Retirement benefits (pensions, seniority premiums, indemnities, etc.) are recorded based on actuarial studies performed by independent experts by the projected unit-credit method.

The net cost for the period based on actuarial calculations over projected salaries is recognized as an expense of the period. Indemnities and direct labor costs are charged to the income statement in the year in which they are paid.

In 2020 and 2019 the net cost for the period includes recycling of remeasured accumulated actuarial losses at December 31, 2015, as well as the profits and losses recorded in the OCI in accordance with the average remaining labor life.

The Institution has a defined contribution plan in place for newly hired personnel who upon reaching 60 years of age and 30 years of service are entitled to a retirement pension for life that is equivalent to the total fund accumulated in their individual account.

(t) Income Tax (IT) and Employee Statutory Profit Sharing (ESPS)-

IT and ESPS payable for the year are determined in conformity with tax regulations in effect.

Deferred IT and ESPS are recorded for under the asset and liability method, which compares the carrying amounts and the respective tax bases. Deferred IT and ESPS (assets and liabilities) are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities and ESPS of a change in tax rates is recognized on the statement of income in the period that includes the enactment date.

Payable and deferred IT and ESPS are presented and classified in the income statement of the year, except for those resulting from a transaction recognized in the comprehensive income or directly in a stockholders´ equity item.

(u) Stockholders´ equity-

The capital stock, premium on sale of shares, legal reserve, additional paid-in capital and retained earnings are expressed as follows: i) movements made as from January 1, 2008 at historical cost, and ii) movements made before January 1, 2008 at restated values determined by applying UDI factors until December 31, 2007 to their historical values. Consequently, the different equity items are expressed at their modified cost.

The net premium on sale of Capital Contribution Certificates (CAPs for its acronym in Spanish) represents the surplus between the payment of subscribed CAPs and the face value thereof.

The Institution´s additional paid in capital are recognized in a caption separate from contributed capital when certain requirements are met. Those requirements include the existence of a formal agreement in place to the effect that shares have no fixed yield until they are capitalized and that they are not reimbursable. Future capital increase contributions that fail to meet the aforementioned requirements are recorded as liabilities.

The amount of comprehensive income shown in the statement of changes in stockholders´ equity is the result of the Institution´s performance in the period and it is comprised by the net income plus items in accordance with specific provisions were directly recorded in stockholders´ equity and do not constitute capital contributions, reductions or distributions. The amounts of comprehensive income for 2020 and 2019 are expressed in historical millions of pesos.

Also presented is the increase or decrease in equity resulting from two types of movements: inherent to owner decisions and those resulting from recognition of comprehensive income.

(v) Trust operations-

The Institution records the equity of the trusts that manages in the memorandum accounts caption, in light of the responsibility involved in realizing or complying with the business purpose of those trusts. In some cases, the above responsibility is limited to accounting for the trust's assets, while in other cases it includes recording assets and liabilities generated from the respective operations.

The trust's equity recognized in memorandum accounts is valued in accordance to the Accounting Criteria.

Income from trusts management is recorded in the income of the period as it accrues.

(w) Custody and administration operations-

Administration operations include those conducted by the Institution on behalf of third parties, such as the purchase and sale of securities and derivative financial institutions, repurchase agreements and securities lending.

Since goods are not owned by the Institution, they do not form part of the consolidated balance sheet. However, the estimated amount for which the Institution would be liable in the event of a future contingency is recorded in memorandum accounts, with the exception of cash received for payment of services on behalf of third parties.

The estimated amount of goods in custody or under administration is determined on the basis of the related operation.

In case the Institution is liable to the depositing party for damages or loss of the goods in custody or under administration, the respective liability is applied to income of the period. It is recorded when the liability becomes known, irrespective of any legal action taken by the depositing party towards repairing the loss or damage.

Income from custody or administration services is applied to the income statement of the period as it is earned.

In the event the goods in custody are also held under administration, they are controlled separately.

(x) Income recognition-

The yields generated by cash and cash equivalents, investments in securities and repurchase agreements are applied to the income statement as they arise.

Interest on the loan portfolio is recognized as it accrues, except for interest on the past due loan portfolio, which is recorded when the respective amounts are actually collected. Commissions collected on initial credit lines are recorded as deferred credit, which is amortized against income of the year by the straight-line method over the loan´s life.

(y) Foreign currency operations-

Foreign currency transactions are recognized at the exchange rate on the date of their execution. At the closing date of the Consolidated Financial Statements, monetary assets and liabilities in foreign currency are translated at the FIX exchange rate determined by the Central Bank on that date and the gains or losses on changes originated in the conversion of foreign currency are recognized in the results of the year.

The Institution complies with the following standards and limits issued by the Central Bank for foreign currency operations:

a. The position, either long or short, in US Dollars must be equivalent to a maximum of 15% of the Institution´s core capital.

b. The foreign currency position must not exceed 2% of net capital, except as concerns the US Dollar or currencies referred to the USD, which can reach up to 15%.

c. Liabilities assumed in a foreign currency must not exceed 183% of the Institution´s core capital.

d. The investment regime for foreign currency operations requires maintaining a minimum level of liquid assets, as per the calculation procedure established by the Central Bank, according to the term to maturity of foreign currency operations.

(z) Contingencies-

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the Notes to Consolidated Financial Statements. Contingent revenues, earnings and/or assets are recognized until their realization is virtually assured.

(aa) Information by segments-

First-tier loan operations refer to loans made directly to companies; second-tier interbank loans channel resources through banking financial intermediaries and other non-bank intermediaries and financial markets, and fund attraction relates to obtaining the necessary funds to meet the National Program for Development authorized by the Ministry of Finance (SHCP for its acronym in Spanish), cover the Institution´s liquidity needs and assign transfer costs to the operating segments that require resources to carry out their operations.

(bb) Related parties-

The Institution conducts transactions with related parties during the regular course of operations. Operations with related parties are understood to be those in which the Institution is owned money in connection with deposits or other cash and cash equivalent operations and loans, credits or discounts, revocable or irrevocable, documented by means of credit memoranda or agreements, as well as loan restructuring, renewal or modification operations, including net positions favoring the Institution arising from derivative operations and investments in securities other than shares.

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Related parties are defined as either individuals or corporations holding direct or indirect control of 2% or more of the shares representing the Institution´s capital, as well as the members of the Institution´s Board of Directors.

Also considered as related parties are business entities, as well as the advisors and officers thereof, in which the Institution has direct or indirect control over 10% or more their capital.

The total sum of operations with related parties does not exceed 50% of the basic portion of the Institution´s net capital, as set forth in Article 50 of the Law.

(4) Foreign currency operations-

As of December 31, 2020 and 2019, foreign currency operations carried out in the currencies used by the Institution and the position of currencies were as follows:

2020

	(In thousands)					
Currencies	**Assets** **Currency source**	**Liabilities**	**Net Position in Currency source**	**Exchange Rate in Mexican pesos**		**Mexican pesos**
USD	9,151,191	9,148,787	$2,404	19.90870	$	48
Pound sterling	186	-	186	27.20325		5
Euro	8,915	9,595	(680)	24.35630		(17)
					$	**36**

2019

	(In thousands)						
Currencies	**Assets** **Currency source**	**Liabilities**	**Net Position In Currency source**		**Exchange Rate in Mexican pesos**		**Mexican pesos**
USD	8,765,749	8,763,595	$2,154	$	18.86420	$	41
Pound sterling	227	14	213		24.98375		5
Euro	78,205	70,767	7,438		21.17506		157
						$	**203**

The exchange risk position (not covered), as a whole and by currency does not exceed 15% of the Institution’s core capital, which totals USD 217,538 thousand and USD 246,679 thousand as of December 31, 2020 and 2019, respectively.

The exchange risk position (not covered) as of December 31, 2020 and 2019 is as follows.

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		Currencies valued to USD (thousand)	
		2020	**2019**
USD	$	6,901	46,232
Pound sterling		254	301
Euro		(772)	8,404
Total	**$**	**6,383**	**54,937**

In determining the exchange risk position, the following exchange rates were used (Currency: US Dollar):

		Exchange rates	
Currency		**2020**	**2019**
USD	$	1.000000	1.000000
Pound sterling		0.731850	0.755059
Euro		0.817394	0.890869

As of December 31, 2020 and 2019, the exchange rates used to convert figures to Mexican pesos are as follow:

		Exchange rates	
Currency		**2020**	**2019**
USD	$	19.908700	18.864200
Pound sterling		27.203250	24.983750
Euro		24.356300	21.175060

As of February 22, 2021, issuance date of the financial statements for the year ended on December 31, 2020, the exchange rates used to convert figures to Mexican pesos are as follow:

Currency		**Exchange rates**
USD	$	20.4165
Pound sterling		28.6332
Euro		24.7724

(5) Cash and cash equivalents-

As of December 31, 2020 and 2019, cash and cash equivalents are made up as follows.

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		2020	2019
Cash, bills and coins		6	6
Demand deposits	$	19,550	17,996
Deposits in the Treasury of the Federation		-	4,648
Time deposits		4,780	3,492
Deposits in domestic banks		152	3,411
Deposits in foreign banks		3,716	1,377
Interbank loans (Call Money)		2,220	327
	$	**30,424**	**31,257**

As of the closing of the 2019 fiscal year, the deposit in the Treasury of the Federation is a demand investment with an annual rate of 7.48%. As stated in Note 21 d), the SHCP instructed to constitute the deposit in order to receive the capitalization resources of fiscal year 2019.

Demand deposits:

	2020				2019				
Currency source	**Average rate**	**Term days**	**Currency source thousands**	**Mexican pesos**	**Average rate**	**Term days**	**Currency source thousands**		**Mexican pesos**
USD	0.07%	4	982,000	19,550	1.53%	2	954,000	$	17,996

Time deposits:

	2020				2019				
Currency source	**Average rate**	**Term days**	**Currency source thousands**	**Mexican pesos**	**Average rate**	**Term days**	**Currency source thousands**		**Mexican pesos**
USD	0.20%	40	240,026	4,780	1.80%	11	185,084	$	3,492

Domestic Bank deposits:

	2020			2019		
	Currency source thousands (USD)		**Mexican pesos**	**Currency source thousands (USD)**		**Mexican pesos**
Banco de México Foreign Currency (F.C.)	105	$	2	63	$	1
Banco de México MXP	-		2	-		3,283
Other banks F.C.	5,747		114	4,480		85
Other banks MXP	-		34	-		42
		$	**152**		$	**3,411**

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Deposits in foreign banks:

	2020			2019		
	Currency source thousands		Mexican pesos	Currency source thousands		Mexican pesos
Mexican pesos	135	$	-	135	$	-
USD	185,818		3,699	55,596		1,049
Pound sterling	186		5	227		6
Euros	480		12	15,218		322
		$	**3,716**		**$**	**1,377**

Call Money:

	2020					2019				
Currency source	Rate	Term days	Currency source thousands		Mexican pesos	Average rate	Term days	Currency source thousands		Mexican pesos
Domestic banks:										
MXP	4.25%	4	2,020,932	$	2,021	7.25%	2	327,457	$	327
F.C.	0.16%	5	10,000	$	199	-	-	-		-
				$	**2,220**				**$**	**327**

Loans with a maturity of less than three days (Call money) are documented with a “Framework contract for the execution of interbank lending operations, “Call money".

Currency Purchase – Sale (Spot):

According to the current regulation for Credit Institutions, the item of Cash and cash equivalents, states that if any concept is with a negative balance, it should be reclassified as a liability in the item of Other Accounts Payable. As of December 31, 2020 and 2019, the net balance of currencies to be received and delivered was reclassified for $16 and $153, respectively, in accordance with the Accounting Criteria for Credit Institutions.

(6) Investments securities-

Investments securities are subject to different market risk, the interest rates associated with the tenor, the exchange rates and the inherent credit and market liquidity risks.

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Risk management policies, and the analysis of risk to which the Institution is exposed, are described in Note 31.

As of December 31, 2020 and 2019, the investments securities were comprised as follow:

a. Trading securities:

		2020	2019
Repurchase agreements (note 7)	$	164,835	133,490
Unrestricted government bonds		18,982	10,495
	$	**183,817**	**143,985**

- Repurchase agreements

Repurchase operations as of December 31, 2020 and 2019 are comprised as follow:

	2020				2019			
Instrument	**Acquisition cost**	**Accrued interests**	**Increase (decrease) for valuation**	**Fair value**	**Acquisition cost**	**Accrued interests**	**Increase (decrease) for valuation**	**Fair value**
BONDES D	123,210	167	(125)	$123,252	100,920	299	93	$101,312
BONOS	250	1	2	253	32	-	1	33
BPAG182	17,367	264	149	17,780	15,625	397	48	16,070
BPAG28	5,485	11	(2)	5,494	2,992	13	-	3,005
BPAG91	16,323	109	20	16,452	10,512	104	31	10,647
CETES	-	-	-	-	1,927	-	(1)	1,926
UDIBONOS	-	-	-	-	499	2	(4)	497
UNSECURED STOCK CERTIFICATES	100	-	-	100	-	-	-	-
STATES AND MUNICIPALITIES SHORT-TERM STOCK MARKET CERTIFICATES	1,000	3	-	1,003	-	-	-	-
STOCK MARKET CERTIFICATES OF FEDERAL GOVERNMENT INSTITUTIONS	500	1	-	501	-	-	-	-
	164,235	**556**	**44**	**$164,835**	**132,507**	**815**	**168**	**$133,490**

As of December 31, 2020, it is included the purchase date value of BONOS DE PROTECCIÓN AL AHORRO (BPAs) and BONOS which are considered restricted, as well as the sale date value of BPAs, both with a net book value of $238. In 2019, the purchase value date of BONDES D and UDIBONOS which are considered restricted, as well as the sale value date of BONOS, with a fair value of $3,622.

As of December 31, 2020, there are BONDES D as a guarantee for an amount of 71 with the Central Bank as per liquidity auctions and BONDES D as per collateralized repurchase for an amount of 5. As of December 31, 2019, the Institution did not have this type of operations.

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Held to maturity securities:

2020					
Instrument	**Under 1 year**	**From 1 to 3 years**	**From 3 to 5 years**	**Greater than 5**	**Acquisition cost**
BONDES D	3,672	56,881	62,657	-	123,210
BONOS	-	-	-	250	250
BPAG182	-	542	4,246	12,579	17,367
BPAG28	-	5,485	-	-	5,485
BPAG91	-	2,460	13,863	-	16,323
UNSECURED STOCK CERTIFICATES	-	100	-	-	100
STATES AND MUNICIPALITIES SHORT-TERM STOCK MARKET CERTIFICATES	1,000	-	-	-	1,000
STOCK MARKET CERTIFICATES OF FEDERAL GOVERNMENT INSTITUTIONS	-	-	500	-	500
	4,672	**65,468**	**81,266**	**12,829**	**$ 164,235**

2019					
Instrument	**Under 1 year**	**From 1 to 3 years**	**From 3 to 5 years**	**Greater than 5**	**Acquisition cost**
BONDES D	-	24,372	76,548	-	100,920
BONOS	-	-	-	32	32
BPAG182	-	547	3,961	11,117	15,625
BPAG28	-	2,992	-	-	2,992
BPAG91	-	-	10,512	-	10,512
CETES	1,927	-	-	-	1,927
UDIBONOS	-	-	-	499	499
	1,927	**27,911**	**91,021**	**11,648**	**$ 132,507**

- Unrestricted government bonds

As of December 31, 2020 and 2019, the unrestricted government bonds are comprised as follow:

	2020				2019			
Instrument	**Acquisition cost**	**Accrued interests**	**Increase (decrease) for valuation**	**Fair value**	**Acquisition cost**	**Accrued interests**	**Increase (decrease) for valuation**	**Fair value**
BONDES D	16,922	20	(12)	$16,930	10,465	11	19	$10,495
BPAG182	1,613	26	16	1,655	-	-	-	-
BPAG91	396	1	-	397	-	-	-	-
	18,931	**47**	**4**	**$18,982**	**10,465**	**11**	**19**	**$10,495**

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Maturity terms:

Instrument	Under 1 year	From 1 to 3 years	From 3 to 5 years	Greater than 5	Total 2020
BONDES D	6,346	10,576	-	-	16,922
BPAG182	-		1,613	-	1,613
BPAG91	-	396	-	-	396
	6,346	**10,972**	**1,613**	**-**	**$ 18,931**

Instrument	Under 1 year	From 1 to 3 years	From 3 to 5 years	Greater than 5	Total 2019
BONDES D	-	10,465	-	-	$ 10,465

b. Available for sale securities:

		2020	2019
Shares MXP	$	38	40
Shares USD		13	17
	$	**51**	**57**

- Shares in Mexican pesos

Shares in Mexican pesos as of December 31, 2020 and 2019 are comprised as follow:

		2020			**2019**		
		Acquisition cost	**Fair value**	**Unrealized loss**	**Acquisition cost**	**Fair value**	**Unrealized loss**
Unlisted	$	97	38	(59)	97	40	(57)

- Shares in foreign currency – valued at millions of Mexican pesos

Shares in foreign currency as of December 31, 2020 and 2019 are comprised as follow:

		2020			2019		
		Acquisition cost	**Fair value**	**Unrealized gain**	**Acquisition cost**	**Fair value**	**Unrealized gain**
Unlisted in USD	$	8	13	5	8	17	9

The dividends collected from shares available for sale in 2020 and 2019 amount to $1 in both years. The valuation recognized in the other items of the comprehensive income within the stockholders' equity for the years ended on December 31, 2020 and 2019 was $(6) and $2, respectively.

- Obligations and other securities

The Obligations and other securities as of December 31, 2020 and 2019 are as follow:

		2020				2019		
		Carrying amount	**Fair value**	**Deficit***		**Carrying amount**	**Fair value**	**Deficit***
Debt certificates	$	-	-	-	$	65	-	(65)

* Impairment recognized in results from prior fiscal years.

c. Held to maturity securities:

		2020	2019
Government securities	$	175	171

(Millions of Mexican pesos)

The government securities as of December 31, 2020 and 2019 are comprised as follow:

		2020			2019		
		Cost	**Provision interests**	**Total**	**Cost**	**Provision interests**	**Total**
Government securities (*)	$	173	2	175	169	2	171

* Held to maturity securities have a term greater than 5 years

d. Interest income, results of valuation and results of purchase and sale of securities in for the years ended on December 31, 2020 and 2019:

		2020	**2019**
Interest income	$	9,817	11,257
Valuation result		(139)	110
Result from purchase and sale of securities		32	110
	$	**9,710**	**11,477**

(7) Repurchase/resale agreements-

Repurchase/resale agreements carried out as of December 31, 2020 and 2019 were mainly Savings Protection Bonds, Development Bonds, Fixed Rate Bonds, Government Bonds (Cetes), Udibonds and Stock Exchange Certificates. Repurchase operation terms were of 2 days in both years.

a. Seller

- Debtors on repurchase/resale agreements

		2020	**2019**
Government bonds	$	5,500	1,580
Commercial repurchases		349	771
Total		5,849	2,351
Securities received as collateral for repurchase agreements:			
Government bonds		(5,500)	(1,580)
Total debtors for repurchase/resale agreements	**$**	**349**	**771**

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- Collateral received by the entity (Memorandum accounts)

		2020	2019
Government bonds	$	5,500	1,580
Business repurchase agreements		512	992
Total	**$**	**6,012**	**2,572**

- Collateral received and sold or pledged as guarantee by the Institution (Memorandum accounts)

		2020	2019
Government bonds	**$**	**5,500**	**1,580**

b. Buyer

- Creditors for repurchase/resale agreements

		2020	2019
Securities owned by the Institution [1]:			
Government bonds	**$**	**164,039**	**129,698**

[1] Repurchased securities are recognized as securities held for trading.

In 2020 and 2019, the interests obtained from repurchase/resale agreements amount to $215 and $480, respectively, and the interests paid for repurchase agreements amount to $9,157 and $10,470, respectively.

(8) Derivatives-

As of December 31, 2020 and 2019, derivatives are made up of rate options (CAPs for its acronym in Spanish) held for trading and fair value and hedging swaps as shown below:

		2020		2019	
		Assets	**Liabilities**	**Assets**	**Liabilities**
For trading:					
SWAPS	$	1,041	921	424	352
Options		-	-	1	1
	$	1,041	921	425	353
For hedging:					
SWAPS		4,764	7,746	1,758	5,623
	$	**5,805**	**8,667**	**2,183**	**5,976**
Net position of liabilities	**$**	**2,862**		**3,793**	

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As of December 31, 2020 and 2019, the Institution has contracted swaps for an equivalent of 7,555 and 6,744 million US Dollars, respectively, and purchase-sale options for trading of 14.19 and 40.12 million US Dollars, respectively as shown below:

		2020		2019	
		Purchase	**Sale**	**Purchase**	**Sale**
Hedge Swaps:					
To hedge the loan portfolio	$	51,216	53,898	43,223	44,006
To hedge securities or security liabilities		87,473	87,773	77,046	80,129
		138,689	141,671	120,269	124,135
Swaps for trading		18,090	17,970	11,687	11,614
Options		-	-	1	1
	$	**156,779**	**159,641**	**131,957**	**135,750**
Net position of liabilities	**$**	**2,862**		**3,793**	

To hedge the loan portfolio:

				Thousands in currency source			Mexican pesos	
	Type of swap	**Currency Source origen**		**Principal**	**Interest**	**Total**	**2020**	**2019**
Purchase	Rate	USD	$	1,209,326	28	1,209,354	$ 24,077	21,971
Purchase	Rate	MXP	$	26,865,664	94,237	26,959,901	26,960	20,315
Purchase	Currency	MXP	$	178,785	32	178,817	179	937
							$ 51,216	**43,223**

				Thousands in currency source			Mexican pesos	
	Type of swap	**Currency source**		**Principal**	**Interest**	**Total**	**2020**	**2019**
Sale	Rate	USD	$	1,209,326	1,690	1,211,016	$ 24,110	21,989
Sale	Rate	MXP	$	26,865,664	91,668	26,957,332	26,957	20,186
Sale	Currency	EUR	$	8,014	-	8,014	195	914
							$ 51,262	43,089
Valuation	Rate	USD				99,386	$ 1,979	746
Valuation	Rate	MXP				656,455	656	171
Valuation	Currency	MXP				500	1	-
							$ 53,898	**44,006**

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To hedge securities or security liabilities:

	Type of swap	Currency source	Thousands in currency source Principal	Interest	Total		Mexican pesos 2020	2019
Purchase	Currency	MXP	44,561,512	586,984	45,148,496	$	45,148	40,230
Valuation	Currency	MXP			837,990		838	22
						$	45,986	40,252
Purchase	Currency	USD	443,717	61	443,778	$	8,835	4,908
Valuation	Currency	USD			48		1	(1)
						$	8,836	4,907
Purchase	Rate	USD	1,403,143	10,996	1,414,139	$	28,154	26,745
Valuation	Rate	USD			225,895		4,497	5,142
						$	32,651	31,887
						$	**87,473**	**77,046**

	Type of swap	Currency source	Thousands in currency source Principal	Interest	Total		Mexican pesos 2020	2019
Sale	Currency	USD	2,379,124	3,226	2,382,350	$	47,429	43,214
Valuation	Currency	USD			34,079		678	434
						$	48,107	43,648
Sale	Currency	MXP	8,842,137	13,700	8,855,837	$	8,856	4,930
Valuation	Currency	MXP			(1,351)		(1)	(2)
						$	8,855	4,928
Sale	Rate	USD	1,403,143	3,662	1,406,805	$	28,008	26,695
Valuation	Rate	USD			140,778		2,803	4,858
						$	30,811	31,553
						$	**87,773**	**80,129**

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For trading:

			Thousands in currency source				Mexican pesos	
	Type of swap	**Currency source**	**Principal**	**Interest**	**Total**		**2020**	**2019**
Purchase	Rate	MXP	1,598,833	1,156	1,599,989	$	1,600	1,698
Valuation	Rate	MXP			236,962		237	363
						$	1,837	2,061
Purchase	Rate	USD	720,084	768	720,852	$	14,351	7,973
Valuation	Rate	USD			95,536		1,902	1,653
						$	16,253	9,626
						$	**18,090**	**11,687**

			Thousands in currency source				Mexican pesos	
	Type of swap	**Currency source**	**Principal**	**Interest**	**Total**		**2020**	**2019**
Sale	Rate	MXP	1,598,833	1,096	1,599,929	$	1,600	1,698
Valuation	Rate	MXP			233,312		233	359
						$	1,833	2,057
Sale	Rate	USD	720,084	698	720,782	$	14,350	7,971
Valuation	Rate	USD			89,756		1,787	1,586
						$	16,137	9,557
						$	**17,970**	**11,614**

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As of December 31, 2020 and 2019, the results of valuation of fair value hedge securities were as follows:

		2020		2019	
		Derivative	**Primary position**	**Derivative**	**Primary position**
Swaps	$	1,022	(1,033)	1,053	(1,068)

Options for trading purposes

			Thousand		**Amount Mexican pesos**	
	Underlying	**Currency source**	**Currency source**		**2020**	**2019**
Purchase	Rate	MXP	7,780	$	8	8
Purchase	Rate	USD	522		10	12
Valuation	Rate				(18)	(19)
				$	**-**	**1**
Sale	Rate	MXP	(9,153)	$	(9)	9
Sale	Rate	USD	(587)		(12)	14
Valuation	Rate				21	(22)
				$	**-**	**1**

As of December 31, 2020 and 2019, the Institution did not have loans with protected rates.

Guarantees granted and received in operations in unrecognized markets:

As of December 31, 2020 and 2019, the guarantees granted for operations carried out in unrecognized derivatives markets are presented under the item of “Other accounts receivable, net” for $4,633 and $4,408, respectively.

Additionally, as of December 31, 2020 and 2019, cash guarantees for $865 and $272 have been received, respectively, which are recorded under the item of “Other accounts payable/Collateral received in cash”.

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(9) Loan portfolio-

Policies and procedures established for the granting, control, recovery of credits, as well as those related to the evaluation and follow-up of the credit risk.

Bancomext´s financing activities are regulated by its Organic Law and its Regulations, as well as by the different legal regulations in force regarding banking and credit, which are the Law for Credit Institutions, General Law of Securities and Credit Operations, Provisions various issued by the Ministry of Finance, National Banking and Securities Commission, the Central Bank or any other competent authority.

The loans manual contains the guidelines of the Credit Process (PDC for its acronym in Spanish), which starts with the definition of the target market and finishes with the recovery of the loan.

Specific policies for each phase of the PDC process mentioned below are established in the operating manuals and are an integral part of the Institution's credit policy framework.

Business Development

1. Development and/or Updating of Programs / Products
2. Promotion management – 1st Tier
3. Promotion management – 2nd Tier
4. First tier credit files management
5. Second tier credit files management
   Addendum No. 1 (October 30, 2019)

Analysis and Decision
1. Borrower Evaluation. Credit Analysis – 1st Tier
   Addendum No. 1 (November 03, 2020)
   - Financial Program matrices 1st Tier
2. Borrower Evaluation. Credit Analysis – 2nd Tier
   - Financial Program matrices 2nd Tier
3. Borrower Evaluation. Preparation of Legal Report and/or personality report
4. Authorization

Instrumentation and disbursement
1. Contracting – 1st Tier
   Addendum No. 1 (February 28, 2020)
   Addendum No. 2 (July 22, 2020)
2. Contracting – 2nd Tier
   Addendum No. 1
3. Registration and release of credit lines, authorization of disposal and letters of credit – 1st Tier
4. Registration and release of credit lines, authorization of disposal and letters of credit – 2nd Tier
5. Safeguarding of securities documentation – 1st Tier
   Addendum No. 1
6. Safeguarding of securities documentation – 2nd Tier

Follow-up

1. Portfolio management and control – 1st Tier
2. Portfolio management and control – 2nd Tier
   Addendum No. 1 (February 25, 2020)
3. Supervision and Monitoring of Accredited and Intermediaries
   Addendum No. 1 (July 22, 2019)
4. Portfolio rating

Recovery

1. Specialized Collections Function (FEC for its acronym in Spanish)
2. Collections management – 1st Tier
3. Collections management – 2nd Tier
   Addendum No. 1 (September 26, 2018)
   Addendum No. 2 (March 29, 2019)
4. Application of allowance for loan losses

Support Processes

1. Credit regulation
2. Borrower investigation
3. Preparation of General Reports of the Credit Process (PDC)
4. Receipt, management, promotion and sale of property and received in dation in payment.
5. Prices and rates system
6. Management System for Environmental and Social Risks (SARAS for its acronym in Spanish)
   Addendum No. 1 (January 24, 2019)

Other Loan Programs

1. Former employee portfolio management
2. Financing of foreign trade inventories
   Addendum No. 1 (March 12, 2018)
   Addendum No. 2 (March 29, 2019)

The granting of credit is made based on the analysis of the borrower's financial situation, the economic viability of the investment projects including their guarantees, the risk limits, the applicant's credit investigation, the legal opinion or personality report and the other general characteristics established by law, manuals and internal policies of the Institution.

In accordance with the powers established in the Credit Manual, the decision instances in this matter are the Board of Directors, the Executive Committee, the Internal Credit Committee and the Credit Committee.

The hiring is formalized and implemented based on the models of contracts previously approved by the Legal Department.

For the control of the disposition of the resources, the registration and release of credit lines is carried out through the Control Board, verifying compliance with the prerequisites established in the authorization.

The internal control in the administration and control of the portfolio established in the manuals is carried out through the operational activities for the exercise and recovery of the credit until its accounting record, where the maturities, rediscounts and transfers are supervised.

Permanent supervision and monitoring of the fulfillment of contractual obligations, comprehensive review of the performance of the financial support granted throughout the term of the credits, as well as of the investment projects, is carried out through the review and visit programs, which allows to generate early alerts that lead to prevent the deterioration of the portfolio.

There is a Special Collection Function (FEC for its acronym in Spanish), for the allocation of the portfolio in default of payment.

The deadlines established to carry out collection actions after the creditor did not make the payment of the credit in time are classified in the following stages:

- Preventive collection will include a period from day 1 to day 4 (natural) counted from non-payment.

- The administrative collection will include a period from day 5 and up to day 30 (natural) counted from non-payment.

- Extrajudicial collection will include a period from the 31st and up to the 90th day (natural) counting from the date of non-payment.

- The judicial collection, if after a period of 90 days after its expiration, no positive results were obtained in the collection management, or earlier if the insolvency of the accredited or intermediary is detected or presumed, or of any situation that impedes its recovery, it is the turn to recover by court.

In the cases in which any payment proposal other than its original payment scheme is managed with the accredited ones, these are analyzed and in case of being legally and financially viable they are submitted to the corresponding authorized body for authorization.

The portfolio risk determination and preventive estimates for credit risks are carried out as described in Note 3 (i). The policies and procedures established by the Administration to determine risk concentrations are described below:

According to Article 80 of the General Provisions applicable to the Credit Institutions of the CNBV, in section II subsection a) related to the risk of the specific loan portfolio, the Institution measures, evaluates and monitors its concentration by type of financing, qualification, economic sector, geographical area and accredited. The concentrations are reported monthly to the CAIR through the Credit Portfolio Risk Report.

The Institution´s Risk Management department issues Risk Regulation Circulars that contain an internal policy to determine the maximum financing amounts allowed for Common Risks per type of borrower, which are below the regulatory risks established by the CNBV, in order to control concentration per borrower or group of borrowers that represent Common Risks.

Concentration risk

Following are management´s policies and procedures for determining risk concentrations.

Per borrower:

For the purpose of carrying out Asset Operations, article 54 of the General Provisions Applicable to Credit Institutions of the CNBV establishes that banks must establish maximum financing limits for a single person or groups of persons who, given the Common Risk, are considered to qualify as one person.

In accordance with article 57 of those Provisions, the regulatory limits applicable to the Institution in the fourth quarter of 2020, were determined considering the 13.20% capital ratio and core capital of $30,754.8 as of December 2019. Regulatory limits are 30% of the core capital ($9,226.4, equivalent to $463.4 million US Dollars at the exchange rate of $19.9087 MXP/USD as of December 31, 2020) per private sector borrower and 100% of the core capital ($30,754.8, equivalent to $1,544.7 million US Dollars) for other types of borrowers.

The Comprehensive Management Regulations Manual establishes that the prudential measure of observing 85% ratio of the regulatory limits to avoid breakage in the event of high depreciation at the Peso/Dollar exchange rate or in case of reductions in the core capital.

Prudential limits applicable to the Institution in the quarter in question are $7,842.4 (equivalent to $393.9 million US Dollars) per borrower of the private sector and $26,141.6 (equivalent to $1,313.0 million US Dollars) for other types of borrowers.

However, the Institution determines financing amounts below the prudential limits as part of its internal measures to prevent concentrations and supervening facts to the granting of loans. The internal financing policy established by management per borrower or group of borrowers of the private sector when represent Common Risks is of $230 million US Dollars, equivalent to $4,579.0, which comprises 14.9% of the core capital.

Per economic sector:

In order to manage the soundness of the main loan portfolios during economic crisis, there is a maximum prudential limit of 30% of the balance of each portfolio per geographic area or city, economic sector and loan beneficiary, in order to avoid concentration and shorten and diversify risk.

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(a) Loan portfolio-

As of December 31, 2020 and 2019, the current and past due loan portfolio, and the credit commitments are as follow:

		2020			2019		
		Current	**Past due**	**Total**	**Current**	**Past due**	**Total**
Portfolio in foreign currency, valued in national currency:							
Commercial loans	$	121,992	1,787	123,779	114,115	48	114,163
Loans to financial entities		4,201	-	4,201	7,123	960	8,083
Loans to government entities		6,580	-	6,580	5,352	-	5,352
Subtotal		132,773	1,787	134,560	126,590	1,008	127,598
Portfolio in national currency:							
Commercial loans		77,055	3,954	81,009	78,515	1,196	79,711
Loans to financial entities		27,595	-	27,595	22,089	120	22,209
Consumer loans		26	3	29	33	3	36
Mortgage loans		94	2	96	100	5	105
Subtotal		104,770	3,959	108,729	100,737	1,324	102,061
Total		**237,543**	**5,746**	**243,289**	**227,327**	**2,332**	**229,659**

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Breakdown of the portfolio per economic sector as of December 31, 2020 and 2019:

		2020		2019	
Sector per economic activity		**Amount**	**%**	**Amount**	**%**
Tourism	$	38,927	16.00	33,710	14.68
Electricity, gas and water		28,925	11.89	26,865	11.70
Real property and lease services		25,600	10.52	23,122	10.07
Steel products, machinery and equipment		25,316	10.41	23,659	10.30
Transportation and communication		22,980	9.45	22,293	9.71
Commerce		13,124	5.39	14,756	6.43
Food, beverages and tobacco		10,754	4.42	11,358	4.95
Chemical substances and plastic or rubber items		8,356	3.43	8,116	3.53
Professional, personal and technical services		5,770	2.37	5,517	2.40
Non-metal mineral products		5,019	2.06	6,678	2.91
Steel industry		4,470	1.84	4,245	1.85
Oil and natural gas extraction		4,170	1.71	3,814	1.66
Construction industry		3,736	1.54	3,560	1.55
Paper, print shops and publishing houses		2,401	0.99	2,774	1.21
Textiles, clothing and leather industry		1,094	0.45	836	0.36
Lumber and Wood products industry		702	0.29	698	0.30
Unclassified services		597	0.25	468	0.20
Educational, medical and Social Assistance services		183	0.08	-	-
Mining		154	0.06	510	0.22
Individuals		125	0.05	141	0.06
Agricultural		-	-	30	0.01
Adjustment to the book value of the hedged item		2,510	1.03	865	0.38
Private sector	$	204,913	84.23	194,015	84.48
Government sector		6,580	2.70	5,352	2.33
Financial sector		31,796	13.07	30,292	13.19
Total	**$**	**243,289**	**100.00**	**229,659**	**100.00**

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Past due portfolio as of December 31, 2020 and 2019:

	Days old as of December 31, 2020				
Type of portfolio:	**1 to 180 days**	**181 to 365 days**	**1 to 2 years**	**Over 2 years**	**Total**
Commercial loans	$ 4,134	1,607	-	-	$ 5,741
Loans to financial entities	-	-	-	-	-
Consumer loans	-	-	2	1	3
Mortgage loans	-	-	1	1	2
	$ 4,134	1,607	3	2	$ 5,746

	Days old as of December 31, 2019				
Type of portfolio:	**1 to 180 days**	**181 to 365 days**	**1 to 2 years**	**Over 2 years**	**Total**
Commercial loans	$ 445	1	310	488	$ 1,244
Loans to financial entities	960	-	120	-	1,080
Consumer loans	1	1	-	1	3
Mortgage loans	-	2	-	3	5
	$ 1,406	4	430	492	$ 2,332

Main movements of the past due portfolio for the years ended on December 31, 2020 and 2019:

	2020	**2019**
Opening balance of past due portfolio	$ 2,332	5,097
Difference per exchange rate from opening balance	147	(154)
Payments	(77)	(35)
Write-offs	(1,527)	(4,013)
Transfers to current portfolio	(882)	(138)
Cancellations due to restructurings	(2)	(572)
Loan openings due to restructurings	1,050	584
Transfers to past due portfolio	4,670	1,546
Capitalization	35	17
Balance of past due portfolio	**$ 5,746**	**2,332**

As of December 31, 2020 and 2019, the past due portfolio balance is comprised of ten and eight companies, respectively, as well as of eleven former employees in each year; eight companies (six in 2019) are involved in a judicial or extrajudicial collection process and two under sustained payment in 2020 (two in 2019).

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Restructured and renewed loans-

	2020				
	Restructured and renewed loan				Modified
Type of portfolio:	Past due restructured[1]	Allocated to past due[2]	Kept current[3]	Consolidated to past due[4]	Not considered restructuring[5]
Commercial loans	$ 492	$ -	$ 63,490	$ 1,075	$ 16,076
Loans to financial entities	-	-	4,251	-	-
Consumer loans	1	-	7	-	2
Mortgage loans	3	-	19	-	26
	$ 496	$ -	$ 67,767	$ 1,075	$ 16,104

	2019				
	Restructured and renewed loan				Modified
Type of portfolio:	Past due restructured[1]	Allocated to past due[2]	Kept current[3]	Consolidated to past due[4]	Not considered restructuring[5]
Commercial loans	$ 1,458	$ 21	$ 34,264	$ 224	$ 5,023
Consumer loans	-	-	-	-	1
Mortgage loans	2	-	-	-	31
	$ 1,460	$ 21	$ 34,264	$ 224	$ 5,055

1. Past due loans that were restructured or renewed.
2. Restructuring or renewal of loans with a single payment of principal at maturity and periodic payments of interest and credits with a single payment of principal and interest at maturity, which were transferred to past due portfolio for having restructured or renewed.
3. Restructured or renewed loans that were kept in current portfolio in accordance with paragraphs 80 to 87 of criterion B-6 "Loan portfolio" of Appendix 33 of the Provisions.
4. Consolidated loans that, as a result of a restructuring or renewal, were transferred to past due loans, in accordance with paragraph 88 of criterion B-6 "Loan portfolio" of Appendix 33 of the Provisions.
5. Restructured loans to which the criteria relating to the transfer to past due portfolio in accordance with paragraph 89 of criterion B-6 "Credit portfolio" of Appendix 33 of the Provisions.

On October 31, 2013 a debt recognition, interest capitalization and reorganization agreement was formalized with a foreign financial entity, whereby it was agreed to recover a total of 146.3 million US Dollars and which is recognized in memorandum accounts. According to such agreement, the amount mentioned will be recovered in a term of 15 years through quarterly payments. On August 5, 2019, it fell into default, the recovery of debts is being negotiated. As of December 31, 2020 and 2019, the equity balance amounts to 88 million US Dollars, for both fiscal years.

Additional guarantees and concessions issued for restructured loans-

During the 2020 and 2019 fiscal years, no additional guarantees or concession were granted to the restructured loans.

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Interests and commissions-

		2020			2019		
Type of loan		**Interests accrued**	**Commissions accrued**	**Total**	**Interests accrued**	**Commissions accrued**	**Total**
Commercial loans	$	12,012	173	12,185	14,144	214	14,358
Loans to financial entities		1,914	1	1,915	2,259	-	2,259
Loans to government entities		253	-	253	265	-	265
Consumer loans		2	-	2	2	-	2
Mortgage loans		5	-	5	8	-	8
Total	**$**	**14,186**	**174**	**14,360**	**16,678**	**214**	**16,892**

Commissions on initial granting of loans-

Commissions collected upon initial granting of loans not yet deferred as of December 31, 2020 and 2019 amounted to $ 758 and $ 846 respectively, which are amortized against income for the year as interest income by the straight-line method over the life of the loan. The weighted term for amortizing commissions as of December 31, 2020 and 2019 is of 4.94 and 5.17 years, respectively.

Rediscounts-

The amount of rediscounts as of December 31, 2020 and 2019 was for $31,393 and $29,307, respectively.

Breakdown of troubled debt portfolio and non-troubled debt portfolio-

Following is the breakdown of total loans, classified as troubled and non-troubled, current and past due:

		2020		
		Current	**Past due**	**Total**
Non-troubled portfolio	$	254,208	-	254,208
Troubled portfolio		3,563	5,526	9,089
Past due interests		-	215	215
Total rated portfolio	**$**	**257,771**	**5,741**	**263,512**

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		2019		
		Current	Past due	Total
Non-troubled portfolio	$	248,171	-	248,171
Troubled portfolio		1,442	2,300	3,742
Past due interests		-	24	24
Total rated portfolio	**$**	**249,613**	**2,324**	**251,937**

A) Valued at the exchange rates as of December 31, 2020 and December 31, 2019.
B) Rated portfolio.
C) It includes of the commercial portfolio, government entities, financial intermediaries and irrevocable guarantees, and letters of credit and international factoring.
D) Does not include the consumer loan and mortgage portfolio.
E) Past due interest is included for information purposes, as established in the provisions for rating portfolios and reserved as incurred.

* As of December 31, 2020, it includes guarantees and credit letters granted in the amount of $22,875, guarantees issued for $152 and factoring for $787. As of December 31, 2019, it includes guarantees and credit letters granted in the amount of $21,943, guarantees issued of $1,196, factoring of $612 and others for ($1,332).

(b) Allowance for loan losses-

As explained in Note 3 (i), the Institution classifies its portfolio and settled an allowance to hedge the credit risks associated with the recovery of its loan portfolio.

Total of rated portfolio as per type of loan as of December 31, 2020-

Rating		Commercial loans	Government entities	Financial intermediaries	Guarantees, endorsements and factoring	Mortgage loans	Consumer loans	Total
A-1 Minimum	$	125,649	6,556	9,987	22,522	68	-	164,782
A-2 Minimum		50,143	-	17,354	1,049	8	-	68,554
B-1 Low		5,567	-	1,723	26	6	-	7,322
B-2 Low		3,238	-	974	54	-	22	4,288
B-3 Low		5,842	-	1,208	-	-	2	7,052
C-1 Medium		1,265	-	195	109	6	1	1,576
C-2 Medium		693	-	-	54	2	1	750
D High		2,702	-	-	-	6	-	2,708
E Irrecoverable		6,387	-	-	-	-	3	6,390
Subtotal		201,486	6,556	31,441	23,814	96	29	263,422
Past due interests		215	-	-	-	-	-	215
Total	**$**	**201,701**	**6,556**	**31,441**	**23,814**	**96**	**29**	**263,637**

Does not include the rating exempt portfolio of $24.

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Allowance required per risk group as of December 31, 2020-

Rating		Commercial loans	Government entities	Financial intermediaries	Guarantees, endorsements and factoring	Mortgage loans	Consumer loans	Total
A-1 Minimum	$	626	33	45	96	-	-	800
A-2 Minimum		484	-	194	13	-	-	691
B-1 Low		91	-	30	-	-	-	121
B-2 Low		65	-	20	1	-	1	87
B-3 Low		202	-	40	-	-	-	242
C-1 Medium		65	-	11	6	-	-	82
C-2 Medium		89	-	-	7	-	-	96
D High		1,046	-	-	-	2	-	1,048
E Irrecoverable		3,637	-	-	-	-	3	3,640
Subtotal		6,305	33	340	123	2	4	6,807
Past due interests		215	-	-	-	-	-	215
Additional reserves		-	-	-	-	-	-	400
Total	**$**	**6,520**	**33**	**340**	**123**	**2**	**4**	**7,422**

Total of rated portfolio as per type of loan as of December 31, 2019-

Rating		Commercial loans	Government entities	Financial intermediaries	Guarantees, endorsements and factoring	Mortgage loans	Consumer loans	Total
A-1 Minimum	$	160,486	4,176	21,708	22,319	82	-	208,771
A-2 Minimum		20,591	1,143	2,813	735	12	-	25,294
B-1 Low		722	-	3,403	-	2	-	4,127
B-2 Low		647	-	1,070	697	-	24	2,438
B-3 Low		3,284	-	220	-	-	4	3,508
C-1 Medium		3,897	-	8	-	4	-	3,909
C-2 Medium		252	-	-	-	2	3	257
D High		782	-	-	-	-	1	783
E Irrecoverable		1,893	-	1,067	-	3	4	2,967
Subtotal		192,554	5,319	30,289	23,751	105	36	252,054
Past due interests		11	-	13	-	-	-	24
Total	**$**	**192,565**	**5,319**	**30,302**	**23,751**	**105**	**36**	**252,078**

Does not include the rating exempt portfolio of $33.

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Allowance required per risk group as of December 31, 2019-

Rating		Commercial loans	Government entities	Financial intermediaries	Guarantees, endorsements and factoring	Mortgage loans	Consumer loans	Total
A-1 Minimum	$	808	21	123	97	-	-	1,049
A-2 Minimum		225	15	31	8	-	-	279
B-1 Low		13	-	61	-	-	-	74
B-2 Low		15	-	22	15	-	1	53
B-3 Low		134	-	8	-	-	-	142
C-1 Medium		292	-	1	-	-	-	293
C-2 Medium		31	-	-	-	-	1	32
D High		267	-	-	-	-	-	267
E Irrecoverable		1,264	-	647	-	2	3	1,916
Subtotal		3,049	36	893	120	2	5	4,105
Past due interests		11	-	13	-	-	-	24
Additional reserves		-	-	-	-	-	-	464
Total	**$**	**3,060**	**36**	**906**	**120**	**2**	**5**	**4,593**

This is an analysis of the movements of the preventive estimate for the years ended on December 31, 2020 and 2019.

	2020	**2019**
Balances at the beginning of the year	4,593	6,363
Increases / (release), net	4,369	2,444
Applications	(1,604)	(4,013)
Write off	-	(7)
Exchange effect	64	(194)
Final balances	**7,422**	**4,593**

For the years ended December 31, 2020 and 2019, the allowance for loan losses constituted by the Institution includes charges of $4,146 and $1,899 recognized in results of the year, respectively. As of December 31, 2020 and 2019, $223 and $545 were received from a counter-guarantee fund to constitute the reserve, respectively.

The allowance from past due portfolio was of $215 and $24, for the years ended as of December 31, 2020 and 2019, respectively.

In rating the loan portfolio as of December 31, 2020 and 2019, the Institution applied the methodologies set forth in the General Provisions Applicable to Credit Institutions for each year.

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In 2020, loan reserves comprised 3.1% of the total portfolio and covered 1.29 times the past-due loan portfolio; in 2019 those factors were 2%, and 1.97 times, respectively.

Criterion B-6 "Loan portfolio" of Appendix 33 of the general Dispositions applicable to the Credit Institutions in Mexico establishes that the Institution may opt to eliminate from its assets any past due loans that have been reserved 100%. In 2020, the Institution applied the balance of 6 loans against the allowance for loan losses for a total for an amount of $1,604. In 2019, the Institution applied the balance of 3 loans against the loan loss reserve for an amount of $4,013.

The financing granted of a trust related to the aeronautical sector, eliminated from assets in 2011, is in its final stage of recovery, and is duly guaranteed.

The portfolio balances removed from the asset, both in thousands of US Dollars and in Mexican pesos that are managed in memorandum accounts, are as follow:

	2020			2019	
	Thousand USD	**Thousand Euros**	**Mexican pesos**	**Thousand USD**	**Mexican pesos**
Past due capital					
Corporations	475	42	$ 1,472	450	$ 1,034
Former employees	-	-	16	-	18
Total capital	**475**	**42**	**$ 1,488**	**450**	**$ 1,052**
Past due interest					
Corporations	4	1	$ 44	8	$ 31
Total interest	**4**	**1**	**$ 44**	**8**	**$ 31**

For the years ended on December 31, 2020 and 2019, the amount of the recoveries of this loan portfolio eliminated from the assets was $7 and $93, respectively, and were recorded in Allowance for loan losses of income statement.

The balance of the rating-exempt portfolio (Federal Government and Development Banking) amounts to $24 and $33 in 2020 and 2019, respectively.

Interest income recognized in loans at capitalization time-

Interest income recognized in the moment of capitalization in 2020 and 2019 amounts to $590 and $138, respectively.

(Millions of Mexican pesos)

Credit lines-

The amount of opening credit lines recognized in memorandum accounts as of December 31, 2020 and 2019 shown below:

Year	Mexican Pesos	Millions USD	Millions Euros
2020	18,158	3,477	44
2019	16,507	3,865	42

(10) Other accounts receivable, net-

As of December 31, 2020 and 2019, the other accounts receivable are as follows:

	2020	2019
Debtors for collateral given in cash in derivative operations (Note 8)	$ 4,633	$ 4,408
Loans granted to Institution´s personnel	2,045	2,062
Debtors for settlement of currency purchase and sale operations	546	194
Debtors for settlement of investment operations in securities	507	11
Taxes recoverable	307	2
Guarantee deposits	68	-
Counter guarantee Program	53	-
Sundry debtors	41	52
Value Added Tax	16	7
Debtors for commissions on current operations	13	11
Assigned accounts receivable	1	2
Debtors for settlement of repurchase agreements	1	1
	8,231	6,750
Write-off allowance	(24)	(20)
	$ 8,207	**$ 6,730**

As of December 31, 2020 and 2019, the Institution has accounts receivable in foreign currency valued at Mexican pesos of $86 y $16, respectively.

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(11) Foreclosed assets-

The integration of these assets as of December 31, 2020 and 2019 is as follows:

Concept	Mexican pesos	Million US Dollars	Valued foreign currency	2020	2019
Movable property	$ 72	-	$ -	72	72
Securities	-	48	960	960	910
Collection rights	-	35	687	687	634
Subtotal	$ 72	83	$ 1,647	1,719	1,616
Real property:					
Farm land	$ 98	-	-	98	98
Urban land	148	-	-	148	153
Single family homes	72	-	-	72	74
Apartments	11	-	-	11	11
Industrial Parks	334	-	-	334	386
Commercial establishments	123	-	-	123	123
Other	73	-	-	73	74
Subtotal	859	-	-	859	919
Properties held for sale:					
Properties	37	-	-	37	28
Subtotal	37	-	-	37	28
	968	83	1,647	2,615	2,563
Less:					
Allowances	967	83	1,647	2,614	2,563
Total	**$ 1**	**-**	**-**	**1***	**-**

* Relates to the balance as of December 31, 2020, of properties held for sale, with a value of $36 and reserve of $35.

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Allowance for foreclosed assets-

The amount of allowance of foreclosed assets as of December 31, 2020 and 2019 is as follows:

		2020	2019
Movable Property	$	72	72
Securities		960	910
Collection rights		686	634
Real Property		859	919
Properties held for sale		37	28
Total reserve		**2,614**	**2,563**

The charge to income statements for the allowance was $24 and $32 as of December 31, 2020 and 2019, respectively.

(12) Property, furniture and equipment, net-

As of December 31, 2020 and 2019, the balances of this item is as follows:

	Useful life		2020	2019
Building	90 years	$	573	569
Furniture and equipment	10 years		461	460
Computing equipment	3.3 years		135	135
Transport equipment	4 years		3	3
			1,172	1,167
Less accumulated depreciation			(779)	(764)
Total investments subject to depreciation			393	403
Construction in progress			-	5
Land			81	81
Total investments do not subject to depreciation			81	86
Total		**$**	**474**	**489**

For the years ended on December 31, 2020 and 2019, the amount for depreciation amounted to $15.

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(13) Permanent investments-

a. The main companies for which the equity method was used, as well as the Institution´s shareholding in those companies, as of December 31, 2020 and 2019 are as follow:

Participation (%)

Company	2020	2019	Activity
Cesce México, S. A. de C. V. (CESCEMEX)	48.99	48.99	Insurance
Corporación Mexicana de Inversiones de Capital, S. A. de C. V. (CMIC)	5.20	5.39	Investment fund

b. The amounts used to recognized the equity method as of December 31, 2020 and 2019, are as follow:

Company		Capital stock	(Accumulated losses) retained earnings	(Loss) Profit of the period	Total 2020	Total 2019
CESCEMEX	$	99	(16)	(1)	82	79
CMIC		370	96	5	471	467
Others		-	-	-	106	84
Total	**$**				**659**	**630**

The net effect of the valuation of the permanent investments as of December 31, 2020 and 2019 is of $29 and $25, respectively. The effect on results is of $28 and $18 for the years ended on December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the valuation result in permanent investments that went to the stockholders' equity is of $1 and $7 respectively. As of the 2020 and 2019 fiscal years, no investments were made.

c. As of December 31, 2020 and 2019, the assets, liabilities and main items of the statement of income of the main associated companies are as follow:

		2020			
		Total			
		Assets	Liabilities	Income	Expenses
CESCEMEX	$	390	226	109	105
CMIC		9,749	672	679	99

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		2019			
		Total			
		Assets	Liabilities	Income	Expenses
CESCEMEX	$	341	183	78	79
CMIC		9,593	906	853	105

d. Investments in shares of associated companies located in Mexico in which there is no control or significant influence are shown valued by the acquisition cost method. The acquisition cost of other permanent investments in shares amounts to $106 and $84 as of December 31, 2020 and 2019.

(14) Time deposits-

Time deposits as of December 31, 2020 and 2019 are as follow:

		2020	2019
Notes with interest payable at maturity	$	102,718	96,415
Fixed term deposits in foreign currency		16,607	25,777
Certificates of bank deposits (CEDES)		1,003	3,308
Deposits for special savings loan		849	826
Fixed term MXP deposits		470	533
Net hedging swaps valuation, net		13	8
Total	**$**	**121,660**	**126,867**

Following are the features with interest payable at maturity as of December 31, 2020 and 2019:

Issuance	Term	Average rate		2020	2019
Note	1 to 29 days	4.62%	$	70,922	74,245
Note	30 to 179 days	4.64%		15,078	21,668
Note	180 to 360 days	4.48%		16,718	502
Total			**$**	**102,718**	**96,415**

Following are the features of fixed term deposits in foreign currency as of December 31, 2020 and 2019.

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Term	Rate	Initial amount	Accrued interests	2020	2019
1 to 29 days	From 0.01 to 0.13%	$ 15,571	-	15,571	21,421
30 to 179 days	From 0.08 to 0.26%	773	-	773	1,253
180 to 360 days	From 1.81 to 2.20%	-	-	-	793
Over 360 days	From 1.38 to 1.80%	259	4	263	2,310
		$ 16,603	**4**	**16,607**	**25,777**

The characteristics of the certificates of bank deposits as of December 31, 2020 and 2019 are as follow.

Issuance	Term	Rate	2020	2019
CEDES	30 to 179 days	TIIE 0.18	$ 1,003	3,308

The characteristics of the fixed term deposits in Mexican pesos as of December 31, 2020 and 2019 are as follow:

Issuance	Term	Rate	2020	2019
Deposit at sight	4 days	From 4.00 to 4.20%	$ 470	533

As of December 31, 2020 and 2019, there are term deposits in favor of related parties for $95 and $119 and interests were paid for $6 and $10, respectively.

(15) Debt instruments issued -

As of December 31, 2020 and 2019, the balance of this item is as follows:

	2020	2019
Stock certificates	31,137	25,128
Bank bonds	20,068	19,009
Net hedging swaps valuation	1,937	(165)
	$ 53,142	**43,972**

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The characteristics of the stock certificates (CEBURES) are as follow:

2020								
Issuance date	**Maturity date**	**Rate**	**Effective rate**	**Term days**	**Amount**	**Nominal value**	**Interest**	**Total**
16/07/2012	04/07/2022	5.75%	5.76%	550	15,000,000	$ 1,500	43	1,543
23/11/2012	11/11/2022	5.94%	5.95%	680	20,000,000	2,000	16	2,016
01/03/2013	17/02/2023	5.61%	5.62%	778	30,000,000	3,000	62	3,062
16/12/2014	03/12/2024	6.54%	6.55%	1,433	35,000,000	3,500	15	3,515
27/06/2017	18/06/2024	7.42%	7.70%	1,265	30,000,000	3,000	9	3,009
29/05/2018	18/06/2024	7.42%	7.70%	1,265	21,400,000	2,140	-	2,140
29/05/2018	25/05/2021	TIIE-0.05	7.85%	145	51,200,000	5,120	14	5,134
29/05/2018	23/05/2023	TIIE-0.01	7.87%	873	7,400,000	740	2	742
18/12/2020	15/12/2023	TIIE-0.03	4.49%	1,079	30,000,000	3,000	5	3,005
18/12/2020	10/12/2027	5.68	5.69%	2,535	70,000,000	7,000	14	7,014
	Allocation discount							(43)
						$		31,137

2019								
Issuance date	**Maturity date**	**Rate**	**Effective rate**	**Term days**	**Amount**	**Nominal value**	**Interest**	**Total**
16/07/2012	04/07/2022	5.75%	5.76%	916	15,000,000	$ 1,500	42	1,542
23/11/2012	11/11/2022	5.94%	5.95%	1,046	20,000,000	2,000	15	2,015
01/03/2013	17/02/2023	5.61%	5.62%	1,144	30,000,000	3,000	61	3,061
16/12/2014	03/12/2024	6.54%	6.55%	1,799	35,000,000	3,500	14	3,514
27/06/2017	23/06/2020	TIIE-0.02	7.35%	175	40,000,000	4,000	18	4,018
27/06/2017	18/06/2024	7.42%	7.70%	1,631	30,000,000	3,000	7	3,007
29/05/2018	18/06/2024	7.42%	7.70%	1,631	21,400,000	2,140	-	2,140
29/05/2018	25/05/2021	TIIE-0.05	7.85%	511	51,200,000	5,120	23	5,143
29/05/2018	23/05/2023	TIIE-0.01	7.87%	1,239	7,400,000	740	3	743
	Allocation discount							(55)
						$		25,128

As of December 31, 2020 and 2019 the Institution has issuance of stock certificates, each issue is under the protection of a Registration, which is deposited in the S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V.

The nominal value of each stock certificate is $.0001, the rights and form of redemption is the payment of interest and amortization of the principal on the due date. Likewise, the proportion between the authorized and the one issued is 100%.

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The features of bank bonds are as follow:

2020						
				Valued in Mexican pesos		
Currency	**Number of bonds**	**Rate**	**Currency source Millions**	**Amount**	**Interest**	**Total**
USD	1 Macrotitle	4.375%	1,000	19,909	183	20,092
Discount as per securities amortization						(24)
					$	**20,068**

2019						
				Valued in Mexican pesos		
Currency	**Number of bonds**	**Rate**	**Currency source Millions**	**Amount**	**Interest**	**Total**
USD	1 Macrotitle	4.375%	1,000	18,864	174	19,038
Discount as per securities amortization						(29)
					$	**19,009**

As of December 31, 2020 and 2019 the Institution had outstanding a MacroTitle (Global bond) in the International Market, which is deposited in the Depository Trust Company with a nominal value of 1,000 million US Dollars, the rights and form of redemption is the payment of interest and amortization of principal on the maturity date. Likewise, the proportion between the authorized amount and the one issued is 100% and the effective rate is 4.53%.

The total amount of the bonds issued was applied to a floating rate at the date of issue through swaps operations carried out on the following terms:

US Dollar 600 million to $Libor_{3m}$ + 233.45 bp.
US Dollar 400 million to $Libor_{6m}$ + 221.00 bp.

The additional annual cost for the concept of issuance expenses is approximately 4.9 bp.

Issuance date: 14/10/2015
Maturity date: 14/10/2025

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(16) Due to bank and other institutions-

The balances of this item as of December 31, 2020 and 2019 are as follow:

		2020	2019
Immediate enforceability:			
Operations of call money	$	**4,070**	**2,728**
Short-term:			
Guaranteed credit lines		1,392	959
Commercial credit lines		6,968	19,725
Implementing agent		12	12
Official bodies		-	2,830
Development banking		25,874	8,327
Federal government loans		60	1,127
Interest provision		93	153
		34,399	**33,133**
Long-term:			
Guaranteed credit lines		23,499	11,698
Implementing agent		6,028	5,723
Federal government loans		-	133
		29,527	**17,554**
Total	$	**67,996**	**53,415**

As of December 31, 2020, the concepts of the loans are integrated as follow:

a. Deposits of immediately demand (Call money)

2020					
Counterparty	**Currency**	**Rate**	**Currency source Millions**	**Value in books**	**Average term (days)**
Domestic banks	USD	From 0.08% to 0.10%	204	$ 4,070	4

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b. Guaranteed credit lines

2020								
				Short-term		Long-term		
Counterparty	Currency	Rate	Currency source Millions	Value in books	Average term (days)	Value in books	Average term (years)	Total
Foreign banks	USD	From 0.07 to 3.90%	1,246	1,392	84	23,499	6	$ 24,891
				1,392		**23,499**		**$ 24,891**

c. Commercial credit lines

2020								
				Short-term		Long-term		
Counterparty	Currency	Rate	Currency source Millions	Value in books	Average term (days)	Value in books	Average term (years)	Total
Domestic banks	USD	0.12%	10	199	31	-	-	$ 199
Foreign banks	USD	From 0.46 to 0.56%	340	6,769	215	-	-	6,769
				6,968				**$ 6,968**

d. Implementing agent

2020								
				Short-term		Long-term		
Counterparty	Currency	Rate	Currency source Millions	Value in books	Average term (days)	Value in books	Average term (years)	Total
International bodies	USD	From 1.56 to 2.96%	303	12	128	6,028	14	$ 6,040

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e. Development banking

2020

				Short-term		Long-term		
Counterparty	**Currency**	**Rate**	**Currency source Millions**	**Value in books**	**Average term (days)**	**Value in books**	**Average term (years)**	**Total**
Domestic banks	USD	From 0.10 to 0.84%	1,300	25,874	99	-	-	$ 25,874

f. Federal Government Loans

2020

				Short-term		Long-term		
Counterparty	**Currency**	**Rate**	**Currency source Millions**	**Value in books**	**Average term (days)**	**Value in books**	**Average term (years)**	**Total**
Domestic banks	USD	1.95%	3	60	91	-	-	$60

As of December 31, 2019, they are as follow:

a. Deposits of immediately demand (Call money)

2019

Counterparty	**Currency**	**Rate**	**Currency source Millions**	**Value in books**	**Average term (days)**
Domestic banks	USD	From 1.45% to 1.50%	145	$ 2,728	3

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b. Guaranteed credit lines

			2019					
				Short-term		Long-term		
Counterparty	Currency	Rate	Currency source Millions	Value in books	Average term (days)	Value in books	Average term (years)	Total
Foreign banks	USD	From 3.90 to 1.25%	671	958	68	11,698	6	$ 12,656
Foreign banks	Euro	2.00	0.07	1	91	-	-	1
				959		**11,698**		**$ 12,657**

c. Commercial credit lines

			2019					
				Short-term		Long-term		
Counterparty	Currency	Rate	Currency source Millions	Value in books	Average term (days)	Value in books	Average term (years)	Total
Domestic bank	MXP	From 7.79 to 8.29%	5,011	5,011	149	-	-	$ 5,011
Foreign banks	USD	From 2.19 to 2.41%	780	14,714	75	-	-	14,714
				19,725				**$ 19,725**

d. Implementing agent

			2019					
				Short-term		Long-term		
Counterparty	Currency	Rate	Currency source Millions	Value in books	Average term (days)	Value in books	Average term (years)	Total
International bodies and Foreign banks	USD	From 2.93 to 3.52%	304	12	126	5,723	15	$ 5,735

e. Official bodies

			2019					
				Short-term		Long-term		
Counterparty	Currency	Rate	Currency source Millions	Value in books	Average term (days)	Value in books	Average term (years)	Total
International bodies	USD	From 1.94 to 2.14%	150	2,830	71	-	-	$ 2,830

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f. Development banking

2019								
				Short-term		Long-term		
Counterparty	**Currency**	**Rate**	**Currency source Millions**	**Value in books**	**Average term (days)**	**Value in books**	**Average term (years)**	**Total**
Domestic banks	USD	From 1.68 to 2.08%	441	8,327	33	-	-	$ 8,327

g. Federal Government Loans

2019								
				Short-term		Long-term		
Counterparty	**Currency**	**Rate**	**Currency source Millions**	**Value in books**	**Average term (days)**	**Value in books**	**Average term (years)**	**Total**
Domestic banks	MXP	7.46	76	-	-	76	31	$ 76
Domestic banks	USD	From 1.71 to 1.95%	63	1,127	47	57	1	1,184
				1,127		**133**		**$ 1,260**

Those loans are contracted with domestic and foreign credit institutions without significant concentration on any of them.

The undrawn balances of the committed lines of Due to bank and other entities as of December 31, 2020 and 2019 amount to 5,334 and 943, respectively.

(17) Sundry creditors and other accounts payable-

As of December 31, 2020 and 2019, the balance of this item is as follows:

		2020	**2019**
Liabilities arising from bank services provided	$	1,260	1,294
Provisions for exposure to legal and operating risk		166	887
Provisions for sundry obligations		213	66
Other sundry creditors		211	220
Employee benefits		1,855	2,101
Balance of currencies		16	153
Total	**$**	**3,721**	**4,721**

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This is the analysis of movements of provisions due to exposure to legal and operating risk for the years ended on December 31, 2020 and 2019.

		2020	2019
Balances at beginning of year	$	887	855
Increases/1		91	275
Cancellations		(1,025)	(209)
Exchange effects		213	(34)
Final balances	**$**	**166**	**887**

1/ As observed in note 25, the change in methodology for the constitution of legal risk reserves authorized by CAIR on September 10, 2019 had an effect of $100.

(18) Employee benefits-

a. Defined benefit pension plans

The Institution has a defined benefit pension plan that covers all employees who meet the requirements established in the general work conditions, which consists of giving them a pension calculated on the basis of the average salary earned in the last year of services, plus a year-end bonus and vacation premium, to which a percentage based on age and years of service is applied.

The pension plan also covers seniority premiums, which consist of a sole payment equivalent to 12 salary days per year worked based on the most recent salary (which is limited to twice the minimum bank salary in effect at the date of retirement), as well as payment of other retirement benefits, such as, medical expenses, medicines, hospital fees and sports fees.

The “Special savings loan Program (PEA for its acronym in Spanish)” consists of a loan offered by the Institution to its retired and active personnel that can only be used as an investment (time deposit) in the Institution, thus guaranteeing a minimum yield with a difference payable by the Institution against the funding rate.

The respective liability and the annual cost of post-retirement benefits are calculated by an independent actuary using the bases of the plans, the Provisions of the CNBV and FRS D-3 Employee benefits.

In 2020 and 2019 the investment of the funds covers the reserves for labor obligations, without surplus in the Defined Benefit Pension Fund.

Due to the fact that interest rates showed a downward trend during 2019, in the actuarial valuation the reduction in the discount rate was made, going from 9.57% as of December 31, 2018 to 7.41% as of December 31, 2019. As a result, the net cost of the period increased by $186 and actuarial losses were recognized in other comprehensive income, within the stockholders´ equity, for $2,653. As of December 31, 2020, the discount rate closed in 7.15%, with which an additional contribution was determined of $28 and actuarial losses were recognized in other comprehensive income $123.

In 2020 and 2019, Contributions to the Defined Benefit Pension Fund were of $ 939 and $514, respectively. $130 and $63 were contributed to the PEA fund in 2020 and 2019, respectively.

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Those contributions include recycling remeasurements of the accumulated balance of plan losses not yet recognized (corridor approach) in the average remaining labor life.

b. Defined contribution pension plan

As of January 1, 2007, the Institution modified the general labor conditions based on the trends and best practices for managing and operating retirement and pension schemes, in order to incorporate the new employees and the employees who decided to migrate from the Defined Benefit System to the Defined Contribution System. This arrangement provides for better control over plan costs and liabilities and makes it possible to maintain a proper cost-benefit ratio for the Institution and its employees, and establishes clear contribution or retirement rules.

This plan integrates the contributions that the Institution makes to the individual accounts opened in the name of each worker, which are divided into two sub-accounts called “A” and “B”, respectively. It is also integrated with the voluntary contributions made by the worker to the "B" sub-account and by the returns generated by both sub-accounts, which are jointly identified as the individual account of the worker. The contributions amount to 24 and 21 as of December 31, 2020 and 2019. As of December 31, 2020 and 2019, the Defined Contribution Trust amounts to $234 and $215, respectively.

As of December 31, 2020, the balances shown below are the result of the actuarial valuation carried out by an independent expert:

December 31, 2020

Net cost of the period		**Retirement pensions**	**Seniority premiums**	**Other post-employment benefits**	**PEA and financial cost of loans**	**Total**
Service cost	$	59	2	57	34	152
Net interests		88	1	98	20	207
Remeasurement recycling		312	1	321	76	710
	$	**459**	**4**	**476**	**130**	**1,069**

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Financial position

		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and financial cost of loans	Total
Defined benefit obligation (DBO)		(10,496)	(25)	(7,297)	(3,750)	(21,568)
Fair value of plan assets		8,851	15	6,349	3,423	18,638
Net (liability) assets as per defined Benefit (NLDB)/NADB		**(1,645)**	**(10)**	**(948)**	**(327)**	**(2,930)**
Accumulated actuarial losses pending to be recognized in Other Comprehensive Income (OCI) (stockholders´ equity)		573	3	369	133	1,078
(Earnings) / Losses recognized in OCI (Stockholders´ equity) pending to be recycled in income of the year		1,072	7	582	194	1,855
Accumulated actuarial losses pending to be recognized in OCI and in the statement of income	**$**	**1,645**	**10**	**951**	**327**	**2,933**
Reserve balance at the beginning of the year	$	-	-	(3)	-	(3)
Net cost of the period		459	4	476	130	1,069
Contributions to the fund		(459)	(4)	(476)	(130)	(1,069)
Reserve balance at the end of the year		**-**	**-**	**(3)**	**-**	**(3)**

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		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and financial cost of loans	Total
Net liabilities (assets) as per defined benefits at the beginning of the period	$	1,299	7	1,783	358	3,447
Net cost of the period		459	4	476	130	1,069
Contributions made		(459)	(4)	(476)	(130)	(1,069)
Payments charged to the reserve		-	-	-	-	-
Remeasurement recycling pending to be recognized in the OCI		(145)	-	(92)	(34)	(271)
Remeasurement recycling recognized in the OCI		(167)	(1)	(228)	(42)	(438)
Net liabilities (assets) remeasurements for defined benefits recognized in the OCI		658	4	(515)	45	192
Net liability (assets) for defined benefits NLDB/(NADB)		**1,645**	**10**	**948**	**327**	**2,930**

Based on the Resolution that amends the general Provisions applicable to lending institutions published on December 31, 2015, the Institution opted to start the recognition of remeasurements of the accumulated balance of actuarial losses of the accumulated plan up to 2015 as of 2021, by recognizing 20% of those balances as of the initial application and an additional 20% in each subsequent year, which must be recognized at the end of each period.

The Institution provided timely notice to the CNBV of its decision to apply the option specified in the Transitory Article Three of the General Provisions Applicable to Credit Lending Institutions.

As ofAt December 31, 2020, the remeasurements of liabilities (assets) from Defined Benefits, net, determined during the actuarial valuation are as follow.

Reconciliation of the gains and losses of the plan as of December 31, 2020

		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and financial cost of loans	Total
Remeasurement pending to be recognized in OCI Actuarial (earnings)/losses in obligations at the beginning of the year	$	537	1	170	115	823
Recycling		(109)	-	(34)	(23)	(166)
Actuarial (earnings)/losses in obligations at the end of the year		428	1	136	92	657
(Earnings)/losses in the return of plan assets at the beginning of the fiscal year		182	2	292	51	527
Recycling		(37)	-	(59)	(10)	(106)
(Earnings)/losses in the return of plan assets at the end of the fiscal year		145	2	233	41	421
Total remeasurements pending to be recognized in the OCI	$	573	3	369	133	1,078

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		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and financial cost of loans	Total
Remeasurements recognized in OCI						
Actuarial (earnings)/losses in obligations at the beginning of the year	$	559	3	1,347	179	2,088
Recycling		(188)	(1)	(251)	(49)	(489)
Actuarial (earnings)/losses in obligations of the year		1,015	4	(287)	150	882
Actuarial (earnings)/losses in obligations at the end of the year		1,386	6	809	280	2,481
(Earnings)/losses in the return of plan assets at the beginning of the year		22	1	(22)	12	13
Recycling		21	-	23	7	51
(Earnings)/losses in the return of plan assets of the year		(357)	-	(228)	(105)	(690)
(Earnings)/losses in the return of plan assets at the end of the year		(314)	1	(227)	(86)	(626)
Remeasurements recognized in another comprehensive result		1,072	7	582	194	1,855
Total remeasurements						
Actuarial (earnings)/losses in obligations at the end of the year		1,814	7	945	372	3,138
(Earnings)/losses in the return of plan assets at the end of the year		(169)	3	6	(45)	(205)
Total remeasurements	**$**	**1,645**	**10**	**951**	**327**	**2,933**

The Institution has accumulated actuarial losses pending to be recognized as of December 31, 2020, in the OCI for $1,078, which will be recognized as from 2021, in compliance with the option exercised, of deferring such recognition according to the resolution that modifies the general regulations applicable to financial institutions, as published in the Federal Official Gazette on December 31, 2015.

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As of December 31, 2020, the results of the actuarial valuation estimate a net cost of the period of $1,025 for 2021.

	Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and financial cost of loans
Average remaining working life (ARWL)	4.20 years	5.10 years	4.20 years	4.20 years
		21.18 years	25.44 years	
Actuarial assumptions:				
Estimated discount rate	7.15%	7.15%	7.15%	7.15%
Increase rate of officer wages	3.50%	3.50%	3.50%	3.50%
Increase rate of employee wages	4.00%	4.00%	4.00%	4.00%
Increase rate of medical expenses	N/A	N/A	7.35%	N/A
Estimated yield rate	7.15%	7.15%	7.15%	7.15%

December 31, 2019

Net cost of the period		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and financial cost of loans	Total
Cost of the service	$	46	1	44	28	119
Net interests		49	1	66	7	123
Remeasurement recycling		144	1	162	28	335
	$	**239**	**3**	**272**	**63**	**577**

Financial position

		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and financial cost of loans	Total
Obligation as per defined benefits (ODB)		(9,341)	(20)	(7,252)	(3,519)	(20,132)
Fair value of plan assets		8,042	13	5,469	3,161	16,685
Net (liability) assets as per defined benefits NLDB/(NADB)		**(1,299)**	**(7)**	**(1,783)**	**(358)**	**(3,447)**
Accumulated actuarial losses pending to be recognized in the OCI (Stockholders´ equity)		719	3	461	166	1,349
Recognized (earnings)/losses in the OCI (Stockholders´ equity) pending to be recycled in results of the year		580	4	1,325	192	2,101
Accumulated actuarial losses pending to be recognized in the OCI and in the statement of income	**$**	**1,299**	**7**	**1,786**	**358**	**3,450**

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		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and financial cost of loans	Total
Reserve balance at beginning of the year	$	-	-	(3)	-	(3)
Net cost of the period		239	3	272	63	577
Contributions to the fund		(239)	(3)	(272)	(63)	(577)
Reserve balance at the end of the year	**$**	**-**	**-**	**(3)**	**-**	**(3)**

Financial position

		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and financial cost of loans	Total
Net liability (assets) as per defined benefits at the beginning of the period	$	492	5	652	(19)	1,130
Net cost of the period		239	3	272	63	577
Contributions made		(239)	(3)	(272)	(63)	(577)
Payments charged to the reserve		-	-	-	-	-
Remeasurement recycling pending to be recognized in the OCI		(148)	(1)	(95)	(34)	(278)
Recognized remeasurement recycling in the OCI		4	-	(68)	6	(58)
Net remeasurements of liability (assets) as per defined benefits in the OCI		951	3	1,294	405	2,653
Net liability (assets) as per defined benefits NLDB/(NADB)		**1,299**	**7**	**1,783**	**358**	**3,447**

As of December 31, 2019, the liability (assets) remeasurements as per Defined Benefits in the actuarial valuation are detailed as follow.

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Reconciliation of the gains and losses of the plan as of December 31, 2019

		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and financial cost of loans	Total
Remeasurements pending to be recognized in the OCI (earnings)/actuarial losses at the beginning of the year	$	647	1	205	139	992
Recycling		(111)	-	(36)	(24)	(171)
Actuarial (earnings)/losses in obligations at the end of the year		536	1	169	115	821
(Earnings)/losses in the return of the plan assets at the beginning of the year		220	2	351	62	635
Recycling		(37)	-	(59)	(11)	(107)
(Earnings)/losses in the return of the plan assets at the end of the year		183	2	292	51	528
Total remeasurements pending to be recognized in the OCI	$	719	3	461	166	1,349
Remeasurements recognized in the OCI						
(Earnings)/losses in obligations at the beginning of the year		(693)	1	(76)	(396)	(1,164)
Recycling		41	-	(53)	28	16
Actuarial (earnings)/losses in obligations of the year		1,210	3	1,476	547	3,236
Actuarial (earnings)/losses in obligations of the year		558	4	1,347	179	2,088
(Earnings)/losses in the return of the plan assets at the beginning of the year		318	1	175	176	670
Recycling		(37)	-	(15)	(22)	(74)
(Earnings)/losses in the return of the plan assets of the year		(259)	(1)	(182)	(141)	(583)
(Earnings)/losses in the return of the plan assets at the end of the year		22	-	(22)	13	13
Remeasurements recognized in other comprehensive income		580	4	1,325	192	2,101
Total remeasurements						
Actuarial (earnings)/losses in obligations at the end of the year		1,094	5	1,516	294	2,909
(Earnings)/losses in the return of the plan assets at the end of the year		205	2	270	64	541
Total remeasurements	**$**	**1,299**	**7**	**1,786**	**358**	**3,450**

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The Institution has accumulated actuarial losses pending to be recognized as of December 31, 2019, in the OCI for $1,349, which will be recognized as from 2021, in compliance with the option exercised, of deferring such recognition according to the resolution that modifies the general regulations applicable to financial institutions, as published in the Federal Official Gazette on December 31, 2015.

As of December 31, 2019, the results of the actuarial valuation estimate a net cost of the period of $1,041 for 2020.

	Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and financial cost of loans
Average remaining working life (ARWL)	4.87 years	5.71 years 21.34 years	4.87 years 26.22 years	4.87 years
Actuarial assumptions:				
Estimated discount rate	7.41%	7.41%	7.41%	7.41%
Increase rate of officer wages	3.50%	3.50%	3.50%	3.50%
Increase rate of employee wages	4.00%	4.00%	4.00%	4.00%
Increase rate of medical expenses	N/A	N/A	7.00%	N/A
Estimated yield rate	7.41%	7.41%	7.41%	7.41%

c. Defined benefit pension plans

The risk indicators are presented at the sessions of the Technical Committees of the Trusts of the Defined Benefit Pension Fund and PEA Fund, which is the highest authority in the decision making of the Trusts and has the responsibility of authorizing the investment regime and monitor compliance with the risk management policies of the Trusts.

The risk indicators and control levels of the Siefores are taken as a reference, in accordance with what is authorized by the Technical Committees.

The risks to which the plan assets are exposed are the following:

Credit risk- Credit risk represents the potential loss that a financial instrument issuer may cause to the counterparty, by failing to meet its obligations, and originates mainly from accounts receivable and investments in debt instruments.

Liquidity Risk- Liquidity risk is the risk that the Trust has difficulties in complying with its obligations associated with its financial liabilities that are settled through the delivery of cash or other financial assets. The Trust's approach to manage liquidity is to ensure, to the greatest extent possible, that it will always have sufficient liquidity to meet its obligations when they expire, both under normal and tense conditions, without incurring unacceptable losses or risking the reputation of the Trust.

Market Risk- Market risk is the risk that changes in market prices, for example, in exchange rates, interest rates or share prices, affect the income of the Trust or the value of the financial instruments that it maintains. The objective of market risk management is to manage and control exposures to this risk within reasonable parameters and at the same time to optimize profitability.

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The Fund Assets of Defined Benefit Pensions are integrated by the years ended on December 31, 2020 and 2019 as follows:

		2020	2019
Cash and cash equivalents	$	1,333	2,163
Government bonds		8,542	6,655
Quoted bank securities		1,975	1,560
Quoted corporate debt securities		1,753	1,382
Quoted shares		790	720
National variable income		580	687
International variable income		242	357
	$	**15,215**	**13,524**

Credit risk: The possible loss caused by default of counterparties represents 0.13% and 0.08%, with respect to the total financial instruments held as of December 31, 2020 and 2019, respectively.

	2020			**2019**		
Type of instrument	**Position**	**Credit risk***	**CR %**	**Position**	**Credit risk***	**CR %**
Variable Income	1,611	0.00	0.00%	1,764	0.00	0.00%
Fixed Rate	3,756	12.28	0.33%	3,448	6.41	0.19%
Actual Rate	6,152	4.7	0.08%	5,350	1.20	0.02%
Reviewable Rate	3,696	3.29	0.09%	2,962	3.48	0.12%
Total	**15,215**	**20.27**	**0.13%**	**13,524**	**11.09**	**0.08%**

* It is not applicable to securities issued by the Federal Government (Cetes), debt vehicles (Bondes, Udibonos, etc.) and counterparties in purchase/sale operations.

Liquidity Risk: It can be seen that liquidity risk is controlled by virtue of representing 0.73% and 0.38% of the total financial instruments as of the end of December 2020 and 2019.

	2020			**2019**		
Type of instrument	**Position (a)**	**Liquidity Risk (LR) (b)**	**LR % (b/a)**	**Position (a)**	**Liquidity Risk (LR) (b)**	**LR % (b/a)**
Variable Income	1,611	8.7	0.54%	1,764	4.7	0.27%
Fixed Rate	3,756	25.1	0.67%	3,448	10.3	0.30%
Actual Rate	6,152	73.3	1.19%	5,350	36.2	0.68%
Reviewable Rate	3,696	3.4	0.09%	2,962	0.3	0.01%
Total	**15,215**	**110.5**	**0.73%**	**13,524**	**51.5**	**0.38%**

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Market Risk: The Value at Risk (VaR) corresponds to 0.17% and 0.25%, with respect to the total financial instruments held as of December 31, 2020 and 2019, respectively, percentages that fall within the authorized limit of 1.40%.

Type of instrument	2020 Position	2020 VaR	2020 VaR*%	2020 Limit	2019 Position	2019 VaR	2019 VaR*%	2019 Limit
Variable Income	1,611	1.3	0.08%	0.70%	1,764	3.2	0.18%	1.40%
Fixed Rate	3,756	7.7	0.20%	0.70%	3,448	20.2	0.59%	1.40%
Actual Rate	6,152	17.6	0.29%	0.70%	5,350	16.2	0.30%	1.40%
Reviewable Rate	3,696	0.0	0.00%	0.70%	2,962	0.0	0.00%	1.40%
Total	**15,215**	**26.6**	**0.17%**	**0.70%**	**13,524**	**33.2**	**0.25%**	**1.40%**

* One day VaR consumption with a confidence level of 95%

The PEA Fund Assets are integrated by the years ended on December 31, 2020 and 2019 as follow:

		2020	2019
Cash and cash equivalents	$	826	945
Government bonds		2,399	2,106
Quoted corporate debt securities		198	110
	$	**3,423**	**3,161**

Credit Risk: The possible loss caused by counterparty default recorded 0.02% and 0.09% at the end of December 2020 and 2019, respectively.

Type of instrument	2020 Position	2020 Credit Risk*	2020 CR %	2019 Position	2019 Credit Risk*	2019 CR %
Fixed Rate	1,027	0.09	0.01%	947	0.08	0.01%
Actual Rate	1,059	0.00	0.00%	916	0.00	0.00%
Reviewable Rate	1,337	0.65	0.05%	1,298	2.90	0.22%
Total	**3,423**	**0.75**	**0.02%**	**3,161**	**3.00**	**0.09%**

* It is not applicable to securities issued by the Federal Government (Cetes), debt vehicles (Bondes, Udibonos, etc.) and counterparties in purchase/sale operations.

(Millions of Mexican pesos)

Liquidity Risk: It is controlled by virtue of representing 0.56% and 0.32% of the portfolio position at the end of December 2020 and 2019, respectively.

	2020			**2019**		
Type of instrument	**Position (a)**	**Liquidity Risk (LR) (b)**	**LR % (b/a)**	**Position (a)**	**Liquidity Risk (LR) (b)**	**LR % (b/a)**
Fixed Rate	1,027	4.17	0.41%	947	1.97	0.21%
Actual Rate	1,059	14.28	1.35%	916	7.87	0.86%
Reviewable Rate	1,337	0.64	0.05%	1,298	0.22	0.02%
Total	**3,423**	**19.08**	**0.56%**	**3,161**	**10.05**	**0.32%**

Market Risk: VaR* consumption in general and by type of instrument is within the authorized limit.

	2020				**2019**			
Type of instrument	**Position**	**VaR**	**VaR*%**	**Limit**	**Position**	**VaR**	**VaR*%**	**Limit**
Fixed Rate	1,027	1.7	0.16%	0.70%	947	3.8	0.40%	0.70%
Actual Rate	1,059	5.2	0.50%	0.70%	916	5.8	0.60%	0.70%
Reviewable Rate	1,337	0.0	0.00%	0.70%	1,298	0.0	0.00%	0.70%
Total	**3,423**	**6.9**	**0.20%**	**0.70%**	**3,161**	**9.6**	**0.30%**	**0.70%**

* One day VaR with a trust level of 95%
** Basic Pension Group Limit (least of 3)

(19) Income Tax (IT) and Employee Statutory Profit Sharing (ESPS)-

The Income Tax Law in effect from January 1, 2014 provides a rate of 30% for 2014 and thereafter.

In the income of the period (expense) income:		**2020**	**2019**
Current IT	$	(7)	(7)
Deferred IT		1,223	313
Total IT in the statement of income	**$**	**1,216**	**306**

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Reconciliation of the effective rate of tax on profit with the rate of the tax incurred

The net benefit of taxes of $1,216 and $306 attributable to the loss before taxes on profit of $3,179 and $1,437 in 2020 and 2019 respectively, was different from the one resulting of applying the rate of 30% of Income Tax to such loss, as a result of the following items:

		2020	2019
Expected expense (30% of the loss before taxes on profit)	$	(954)	(426)
Increase (reduction) resulting from:			
Tax effect of inflation, net		(218)	(216)
Non-deductible expenses		12	11
Contributions to Fidapex			48
Exchange fluctuation of preventive estimation for credit risks		(316)	39
Non-deductible employee benefits		142	81
Change in the reserve of assets valuation as per deferred taxes		(254)	274
Others, net		372	(117)
Income tax (benefit) expense	$	**(1,216)**	**(306)**

Deferred tax assets and liabilities are determined using the tax rates that are expected to apply in the period in which the asset is realized or the liability is cancelled, the current Income Tax Law establishes a 30% rate and modifications are not expected in later years, so the 30% rate is used to determine deferred taxes.

The income tax effects of temporary differences that originate significant portions of assets and liabilities of deferred tax on profit, as of December 31, 2020 and 2019 are as follow:

		2020	2019
Deferred assets			
Allowance for credit risks	$	3,769	2,658
Collected fees		230	258
Estimation of foreclosed assets and others		12	10
Tax losses pending to be amortized		190	138
		4,201	3,064
Deferred liabilities			
Legal and deferred ESPS	$	(340)	(226)
Investment valuation in securities and derivatives		(221)	(187)
Paid fees		(4)	(3)
Payments in advance		(16)	-
Properties, furniture and equipment		(80)	(83)
		(661)	(499)
Valuation reserve of deferred assets		(363)	(617)
Deferred assets, net	**$**	**3,177**	**1,948**

(Millions of Mexican pesos)

The allowance valuation for deferred asset as of January 1, 2020 and 2019 was of $617 and $343, respectively. The net change in the allowance valuation for the years ended on December 31, 2020 and 2019, was of $(254) and $274 respectively and are related to estimations for credit risks for which a recovery is not expected. In assessing the potential recovery of deferred assets, the Institution considers whether it is more likely that some portion or all of the deferred assets will not be recovered. The ultimate realization of deferred assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. By carrying out this evaluation, Management considers the expected reversal of deferred liabilities, projected future taxable profit, and planning strategies.

The accounting – tax reconciliation for the Institution and its subsidiary DIESA for the years ended on December 31, 2020 and 2019 is as follows:

		2020		**2019**	
		Institution	Subsidiary Diesa	Institution	Subsidiary Diesa
Income before taxes on profit	$	(3,183)	23	(1,442)	5
Increase (reduction) resulting from:					
Tax effect of inflation, net		(727)	-	(721)	-
Non-deductible expenses		39	2	35	4
Contributions to Fidapex		-	-	160	-
Non-deductible employee benefits		476	-	272	-
Allowance for credit risks, net of write-offs		4,146	-	1,942	-
Valuation of investment securities and derivatives		(15)	-	(344)	-
Prepaid collections, net		(93)	-	113	-
Legal and deferred ESPS		(378)	-	(115)	-
Others, net		(405)	-	(360)	14
IT base	$	(140)	25	(460)	23
IT rate		30%	30%	30%	30%
Current income tax		**-**	**7**	**-**	**7**

For the year ended on December 31, 2020 and 2019, a tax loss of $140 and $460 was determined, which may be reduced from the tax profit of the following ten years until it is finished and will be updated in accordance with the provisions of the Income Tax Law.

(Millions of Mexican pesos)

Legal and deferred ESPS

The (benefit) expense for the legal and deferred ESPS is as follows:

		2020	2019
Income of the period:			
Legal ESPS	$	-	-
Deferred ESPS		(381)	(115)
	$	**(381)**	**(115)**

The ESPS effects of temporary differences originating significant portions of the assets and liabilities of deferred ESPS, as of December 31, 2020 and 2019 are as follow:

		2020	2019
Deferred assets			
Allowance for credit risks	$	1,256	886
Collected fees		77	86
Estimation of foreclosed assets and others		4	3
Others		1	46
		1,338	1,021
Deferred liabilities			
Valuation of investment securities and derivatives	$	(74)	(62)
Paid fees		(1)	(1)
Properties, furniture and equipment		(1)	(1)
Payments in advance		(5)	-
		(81)	(64)
Valuation reserve of deferred assets		(121)	(206)
Deferred assets, net	**$**	**1,136**	**751**

The valuation reserve of deferred assets as of January 1, 2020 and 2019 was of $206 and $114, respectively. The net change in the valuation reserve for the years ended on December 31, 2020 and 2019 was of $(85) and $92, respectively.

(20) Subordinated debt issue-

In August 2016, the Institution issued subordinated debt in the international capital markets. The hybrid instrument was contemplated in calculating the supplementary portion of the Institution's capital, which made it possible to increase its net capital index. Additionally, since the Institution's capital is expressed in US Dollars, the issue in US Dollars provided a natural hedge for the capital index against fluctuations in the MXP/US Dollar exchange rate.

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Following are the features of the subordinated debt outstanding:

2020							
					Valued Mexican pesos		
Number of securities	**Nominal value**	**Rate**	**Currency**	**Currency source Millions**	**Amount**	**Interest**	**Total**
700,000	1,000 USD	3.80%	USD	700	13,936	204	14,140
Placement discount							(73)
Effect by valuation of covered position							39
					$		**14,106**

2019							
					Valued Mexican pesos		
Number of securities	**Nominal value**	**Rate**	**Currency**	**Currency source Millions**	**Amount**	**Interest**	**Total**
700,000	1,000 USD	3.80%	USD	700	13,205	194	13,399
Placement discount							(87)
Effect by valuation of covered position							(63)
					$		**13,249**

The rights and form of redemption is the payment of interest and amortization of the principal on the due date. Likewise, the proportion that keeps the authorized amount compared to the issued amount is 100%. The annual additional cost for issue expenses is approximately 5.0 bp. and the effective rate is 4.14%.

Principal amount issued:	USD 700 million
Coupon rate:	3.80% half yearly fixed
Yield:	4.032%
Price:	98.959
Term:	10 years
Early payment option (“Call”)	At fifth anniversary (11/08/2021)
Format:	144A and Regulation S
Date of issuance:	August 11, 2016
Date of maturity:	August 11, 2026
Payment of principal:	Amortization at maturity or at “call”
Demand:	8 times the amount initially offered

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(21) Stockholders´ Equity-

a. The stockholders´ equity as of December 31, 2020 and 2019 is integrated as follows:

			2020		
	Number of CAP*		**Nominal Value**	**Restatement effects**	**Total**
Subscribed:					
Series A	178,755,098	$	17,875	627	18,502
Series B	92,085,960		9,209	323	9,532
Subtotal	270,841,058		27,084	950	28,034
Contributions for future capital stock increases formalized by the Institution´s Governing body			12,141	-	12,141
Share premium			71	10	81
Capital reserve			(547)	688	141
Prior years´income			(1,186)	(1,161)	(2,347)
Result from valuation of available for sale securities			11	-	11
Remeasurements of employee defined benefits			(1,855)	-	(1,855)
Result from holding non-monetary assets			-	(25)	(25)
Net income			(1,970)	7	(1,963)
Total	**270,841,058**	**$**	**33,749**	**469**	**34,218**

* Certificates of Capital Contribution (CAP’s for its acronym in Spanish).

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			2019		
	Number of CAP*		**Nominal Value**	**Restatement effect**	**Total**
Subscribed:					
Series A	178,755,098	$	17,875	627	18,502
Series B	92,085,960		9,209	323	9,532
Subtotal	270,841,058		27,084	950	28,034
Contributions for future capital stock increases formalized by the Institution´s Governing body			8,033	-	8,033
Share premium			71	10	81
Capital reserve			(547)	688	141
Prior years´income			(60)	(1,156)	(1,216)
Result from valuation of available for sale securities			8	-	8
Remeasurements of employee defined benefits			(2,101)	-	(2,101)
Result from holding non-monetary assets			-	(25)	(25)
Net income			(1,126)	(5)	(1,131)
Total	**270,841,058**	**$**	**31,362**	**462**	**31,824**

b. The capital stock is represented by nominative Certificates of Capital Contribution (CAP); without coupons and is divided into the following series:

Series “A” comprising at all times 66% of the Institution´s capital stock and it may only be subscribed by the Federal Government; a sole bond will be issued, which will be non-transferable and in no case may its nature or the rights that it confers to the Federal Government be changed.

Series “B” comprises 34% of the capital stock and it may be issued in one or several bonds of equal value. They may be subscribed by the Federal Government, the Governments of the different States and Municipalities or by Mexican individuals or business entities of the social and private sectors, preference given to parties associated to foreign trade activities. No individual or business entity may take control of the bonds for more than 5% of the capital paid to the Institution. In no case may foreign individuals or business entities hold interest in the capital stock, nor Mexican companies whose bylaws do not include a clause for direct and indirect exclusion of foreigners.

On March 27, 2020, the agreement was published in the Official Gazette by which article 7, first paragraph of the Institution´s Organic Regulations, is modified, which establishes the following: The authorized capital stock is $45,000, which will be represented by 297,000,000 and 153,000,000 CAP Series "A" and "B", respectively, with a nominal value of 100 pesos per share.

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On April 19, 2018, in a session held by the Board of Directors of the Institution, it was agreed to propose to the Ministry of Finance to carry out the modification of the amount subscribed and paid capital in the amount of $ 27,084, which is represented by 178,755,098 CAP of Series "A" with a nominal value of $ 100.00 pesos each and 92,085,960, CAP of Series "B" with a nominal value of $ 100.00 pesos each one. In the 2018 fiscal year, the capitalization of contributions for future capital increases was made for $ 3,825, remaining a capital stock, including the restatement effects, of $ 28,034 as of December 31, 2020 and 2019.

In a meeting held on March 7, 2019, the Board of Directors of the Institution agreed to propose to the Ministry of Finance to carry out the modification of the amount of the capital stock subscribed and paid to the amount of $30,470 for the contribution received on December 31, 2018 of $ 3,386, which is represented by 201,102,698 certificates of equity contribution of Series "A" with a nominal value of $ 100.00 pesos each and 103,598,360, certificates of equity contribution of Series "B" with nominal value of $ 100.00 pesos each. As of December 31, 2020, the respective CAPs are in the process of issuance.

In an extraordinary session held on January 31, 2020, the Board of Directors of the Institution learned of the capital contribution made by the Federal Executive through the SHCP on December 31, 2019 for $4,647 and instructed the Institution to carry out the procedures to formalize the contribution received within the paid capital and approved the issuance of the corresponding contribution certificates. As of December 31, 2020, the respective CAPs are in the process of issuance.

As of December 31, 2020 and 2019, the capital stock is represented by the Federal Government (99.9877%), the Central Bank (0.0072%), Nacional Financiera, S. N. C. (0.0028%) and Banco Nacional de Obras y Servicios, S. N. C. (0.0023%).

c. The distribution or reduction of stockholders´ equity, after subtracting the restated capital stock contributed and restated tax profits, would be subject to 30% of Income Tax payable by the Institution. As of December 31, 2020 and 2019, the tax accounts related to the Institution´s stockholders´ equity known as Capital Contributions Account (CUCA for its acronym in Spanish) and Net Account of Tax Profit (CUFIN for its acronym in Spanish) are as follow:

	2020	2019
CUCA	$ 78,366	$ 71,865
CUFIN	$ 12,630	$ 12,582

The subsidiary DIESA has a CUCA of $748 and $725 and a negative CUFIN of $349 and $355 in 2020 and 2019 respectively.

d. On December 23, 2020, the Board of Directors approved the Institution´s administration of the Institution to request from the Federal Executive, through the SHCP, a capital contribution of up to $4,108 to support the fulfillment of its mandate as a Development and Banking Institution and permanently strengthen the capital base of the Institution and maintain a prudential capitalization index that allows it to continue complying with its substantive programs. The contribution was received on December 31, 2020.

(Millions of Mexican pesos)

Through official communication number 102-B-167/2019 dated December 30, 2019, the Ministry of Finance, based on Article 7 Section XIX of the Internal Regulations of that Ministry, instructed Banco Nacional de Comercio Exterior, S.N.C., to constitute a deposit in the Treasury of the Federation, in terms of Article 29 of the Treasury of the Federation Law, in order to receive the resources from the capitalization for an amount of $4,647, so the Institution is capitalized in the 2019 fiscal year, with resources received on December 31, 2019.

e. In accordance with the Credit Institutions Law, Development Banks must maintain a minimum net capital of 8.0% with respect to their assets subject to risk. Additionally, they must maintain a capital supplement equivalent to 2.5% of those assets.

The capitalization index (unaudited) as of December 31, 2020 and 2019 is as follows:

		2020	**2019**
Basic	$	32,567	30,755
Supplementary		13,936	13,205
Net capital		46,503	43,960
Assets subject to risk of:			
Credit		207,860	195,075
Market		22,592	24,251
Operational		14,380	13,624
		244,832	232,950
Capitalization index $_{Basic}$ (%)		13.30	13.20
Capitalization index $_{Net}$ (%)		18.99	18.87

As of December 31, 2020 and 2019, the Institution complies with the above requirement by maintaining a capitalization index of 18.99% and 18.87% respectively, such index was calculated based on the rules for determining capitalization requirements published by the SHCP in the Official Gazette on December 28, 2005, with its respective amendments.

The capitalization index is reported monthly to the Comprehensive Risk Management Committee and quarterly to the Board of Directors, explaining the main differences in the items that comprise it.

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(22) Segment information-

The information as of the year ended on December 31, 2020, derived from the operation of each one of the main segments into which the Institution´s operations are divided are as follow:

a) Assets and liabilities -

		Assets		**Liabilities and Capital**		**Income**		**Expenses**	
Business segment		**Amount**	**% Part.**	**Amount**	**% Part.**	**Amount**	**% Part.**	**Amount**	**% Part.**
First tier loans	$	204,293	43.4	2,131	0.5	5,362	67.3	(3,231)	32.5
Second tier loans		31,449	6.7	859	0.2	956	12.0	(97)	1
Financial markets and deposit funding		220,621	46.9	416,685	88.5	1,175	14.7	6	(0.1)
Corporate		14,101	3.0	50,789	10.8	477	6.0	(6,611)	66.6
Total	**$**	**470,464**	**100**	**470,464**	**100**	**7,970**	**100**	**(9,933)**	**100**

b) Results by segment -

		First tier	**Second tier**	**Financial markets and Treasury**	**Corporate**	**Total**
Income:						
Financial income	$	5,362	956	1,175	477	7,970
Expenses:						
Operating expense		(434)	(186)	(219)	(1,503)	(2,342)
Credit allowance		(3,957)	(91)	-	(125)	(4,173)
Current and deferred income tax and Employees´ profit sharing		1,160	180	225	32	1,597
Exploitation*		-	-	-	(5,015)	(5,015)
Total	**$**	**2,131**	**859**	**1,181**	**(6,134)**	**(1,963)**

* As indicated in note 25, the Federal Executive, through the Ministry of Finance in the exercise of the powers conferred on it by article 10 of the Revenue Law of the Federation 2020, through Official Letters 368.-046/2020 and 368.-142/2020 dated April 24, 2020 and December 17, 2020, respectively, instructed the payment of exploitation to the Institution of $907 and $4,108, charged to the Profit before taxes generated by the Institution, which were paid on April 27, 2020 and on December 18, 2020 to the Treasury of the Federation.

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First tier loan operations correspond to loans made directly to companies; second tier interbank loans channel resources through banking financial intermediaries and other non-banking intermediaries and financial markets, and deposit funding correspond to obtaining the necessary funds to meet the Annual Financial Program authorized by the Ministry of Finance, to cover the Institution´s liquidity needs and assign transfer costs to the operating segments that require resources to carry out their operations.

c) Loan portfolio and deposit funding-

The loan balance as of December 31, 2020 amounted to $277,782, of which $6,580 (2.4%) correspond to the public sector operations and $271,202 (97.6%) to private sector operations, of which $218,448 are for first tier loans and guarantees.

The capital used to grant loans are mainly from loans from international credit institutions and from the issue of debt securities in Mexican pesos, which are included in a pool of resources to achieve interest rates that allows the Institution to offer competitive placement rates for its first tier and second tier loan operations.

As of December 31, 2020, the funding balance arising from the issue of promissory notes payable at maturity and debt securities in Mexican pesos comprised 72.9% of the internal debt, while loans made through commercial credit lines comprised 44.3% and external securities outstanding comprised 47.3%.

As of December 31, 2019, the information derived from the operation of each of the segments into which the Institution´s operations are divided is as follows.

a. Assets and liabilities

		Assets		Liabilities and Capital		Income		Expenses	
Business segment		**Amount**	**% Part.**	**Amount**	**% Part.**	**Amount**	**% Part.**	**Amount**	**% Part.**
First tier loans	$	194,879	47.0	4,594	1.1	5,322	61.4	(728)	7.4
Second tier loans		30,046	7.3	957	0.2	923	10.7	34	(0.4)
Financial markets and deposit funding		178,424	43.0	361,776	87.3	1,991	23	(143)	1.5
Corporate		11,193	2.7	47,215	11.4	425	4.9	(8,955)	91.5
Total	**$**	**414,542**	**100**	**414,542**	**100**	**8,661**	**100**	**(9,792)**	**100**

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b. Results by segment

		First tier	Second tier	Financial markets and Treasury	Corporate	Total
Income:						
Financial income	$	5,322	923	1,991	425	8,661
Expenses:						
Operating expense		(203)	(7)	(143)	(1,315)	(1,668)
Credit allowance		(525)	41	-	(1,566)	(2,050)
Exploitation*		-	-	-	(6,074)	(6,074)
Total	**$**	**4,594**	**957**	**1,848**	**(8,530)**	**(1,131)**

* As indicated in note 25, the Federal Executive, through the Ministry of Finance in the exercise of the powers conferred on it by article 10 of the Revenue Law of the Federation 2019, through Official Letter 368.-196/2019 dated December 30, 2019, instructed the payment of exploitation to the Institution of $6,074, charged to the Profit before taxes generated by the Institution, which was paid on December 30, 2019 to the Treasury of the Federation.

First tier loan operations correspond to loans made directly to companies; second tier interbank loans channel resources through banking financial intermediaries and other non-banking intermediaries and financial markets, and deposit funding correspond to obtaining the necessary funds to meet the Annual Financial Program authorized by the Ministry of Finance, to cover the Institution´s liquidity needs and assign transfer costs to the operating segments that require resources to carry out their operations.

c. *Loan portfolio and deposit funding*

The loan balance as of December 31, 2019 amounted to $268,619, of which $5,352 (2.0%) correspond to the public sector operations and $263,267 (98.0%) to private sector operations, of which $209,591 are for first tier loans and guarantees.

(Millions of Mexican pesos)

The capital used to grant loans are mainly from loans from international credit institutions and from the issue of debt securities in Mexican pesos, which are included in a pool of resources to achieve interest rates that allows the Institution to offer competitive placement rates for its first tier and second tier loan operations.

As of December 31, 2019, the funding balance arising from the issue of promissory notes payable at maturity and debt securities in Mexican pesos comprised 71.4% of the internal debt, whereas loans made through commercial credit lines comprised 40.2% of the external debt, and external securities outstanding comprised 47.0%.

(23) Financial margin and Commissions and Fees Income-

a) Financial margin

The financial margin for the years ended on December 31, 2020 and 2019 is analyzed as follows:

The income and expenses as per interests in 2020 and 2019 are integrated as follow:

		2020		
		Mexican pesos	**Foreign currency (valued at Mexican pesos)**	**Total**
Financial income:				
Loan portfolio income (note 9)	$	8,051	6,309	14,360
Interests as per investments in securities and repurchase agreements (notes 6 and 7)		10,031	1	10,032
Interests from cash and cash equivalents		153	89	242
Income as per collateral in operations with derivatives		562	-	562
		18,797	6,399	25,196
Less Financial expenses:				
Expenses for repurchase agreements (note 7)		9,156	-	9,156
Interests on time deposits		6,953	250	7,203
Interests on bonds		1,498	940	2,438
Interests on Due to bank and other institutions		41	808	849
Interests on subordinated debentures		-	572	572
Result of valuation of derivatives		(1,853)	-	(1,853)
Other items		28	46	74
		15,823	2,616	18,439
Financial margin	**$**	**2,974**	**3,783**	**6,757**

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		2019		
		Mexican pesos	**Foreign currency (valued at Mexican pesos)**	**Total**
Financial income:				
Loan portfolio income (note 9)	$	9,749	7,143	16,892
Interests as per investments in securities and repurchase agreements (notes 6 and 7)		11,735	2	11,737
Interests from cash and cash equivalents		285	452	737
Income as per collateral in operations with derivatives		457	-	457
Other items		-	39	39
		22,226	7,636	29,862
Less Financial expenses:				
Expenses for repurchase agreements (note 7)		10,470	-	10,470
Interests on time deposits		8,271	644	8,915
Interests on bonds		1,829	843	2,672
Interests on Due to bank and other institutions		12	1,772	1,784
Interests on subordinated debentures		-	512	512
Result of valuation of derivatives		(1,748)	-	(1,748)
Other items		21	38	59
		18,855	3,809	22,664
Financial margin	**$**	**3,371**	**3,827**	**7,198**

b) Commissions and Fees Income

		2020	**2019**
Loan operations	$	372	507
Guarantees		250	238
Letters of credit		51	51
Trust		32	33
Appraisals		6	6
Other commissions and fees collected		1	2
	$	**712**	**837**

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(24) Financial intermediation income-

The financial intermediation income for the years ended on December 31, 2020 and 2019 is as follows:

		2020	2019
Result for valuation of bonds	$	(89)	96
Result from purchase/sale of securities		51	135
Result from purchase/sale of currencies		8	(17)
Total	**$**	**(30)**	**214**

(25) Other operating expenses, net-

Other operating expenses, net, for the years ended on December 31, 2020 and 2019 are analyzed as follow:

		2020	2019
Recoveries		69	85
Cancellation of allowance for foreclosed assets		45	75
Interests collected from loans made to employees		89	91
Gain on sale of foreclosed assets		2	12
Write-off for cancellation of foreclosed assets (note 11)		(28)	(32)
Risk management allowance (Operating and Legal) 1/		395	(81)
Payment of public use taxes to the Federal Government 2/		(5,015)	(6,074)
Other items		(121)	32
Total	**$**	**(4,564)**	**(5,892)**

1/ The change in methodology for the constitution of legal risk reserves authorized by CAIR on September 10, 2019 (Note 31), had an effect on the results of the Institution of $100, in 2019, being applied prospectively as these are changes in accounting estimates, in accordance with Financial Reporting Standard B-1 Accounting changes and error correction.

2/ The Federal Executive, through the Ministry of Finance in the exercise of the powers conferred on it by article 10 of the Revenue Law of the Federation 2020, through Official Letters 368.-046/2020 and 368.-142/2020 dated April 24, 2020 and December 17, 2020, respectively, instructed the payment of exploitation to the Institution of $907 and $4,108, charged to the Profit before taxes generated by the Institution, which were paid on April 27, 2020 and on December 18, 2020 to the Treasury of the Federation. On December 30, 2019, a payment was made for $6,074 for the same concept, regarding the Official Letter 368.-196/2019 of the same date.

(26) Going Concern-

The accompanying consolidated financial statements have been prepared under the assumption that the Institution will continue as a going concern because it maintains its ability to continue operating without interruption, even with the negative effects on the world economic situation generated by the health crisis.

On March 11, 2020, the World Health Organization declared the outbreak of a new coronavirus SAR-CoV2 (COVID-19) as a pandemic, leading to uncertainty in the global economy. Due to the pandemic, during the fiscal year that ended on December 31, 2020 and on the date of issuance of these financial statements, the Government of Mexico declared a health emergency and established extraordinary actions in various public, private and social activities seeking to control the spread of the virus. The Institution took the corresponding measures in order to reduce the possible impact on its financial position and mitigate the effects of the pandemic, which are described below:

Business Continuity Plan.- The Infectious Diseases Scenario of the Business Continuity Plan Management System (SG-PCN for its acronym in Spanish) was activated, thereby protecting vulnerable groups, promoting social distancing, operating with staggered schedules and the use of resources and applications for teleworking (home office) was implemented without interrupting any process and maintaining operational capacity, ensuring Business Continuity for a prolonged and intermittent period in protection of human capital and preventing contagion among staff , customers and suppliers, holding weekly coordination meetings in order to monitor and, where appropriate, adjust the Plan.

Loan portfolio.- Note 3 (h) details the measures that the Institution established in support of its borrowers in order to mitigate the possible impacts on its economic activity, which mainly consisted of granting capital and interest rescheduling; additionally, requests for working capital were attended and programs were developed as a result of the Covid-19 situation, such as the programs *Impulso TMEC and Impulso + Hoteles*. Also a first-floor financing modality was implemented in support of SMEs called Impulso Pyme 50.

As indicated in note 3 (h), the balance of the restructured loans as of December 31, 2020 in accordance with Criterion B-6 amounts to $41,606; according to the Special Accounting Criteria, it is $12,532 in the first and second tiers and $3,124 in the guarantee program; the balance of loans restructured with the Covid-19 Accounting Facilities is $2,376. For the restructured loans, the Institution created prudential reserves for $244, of which $70 corresponded to restructured borrowers based on special accounting criteria; the effect of these reserves on the ICAP as of December 31, 2020 is 2.87 basis points.

Note 9 (a) shows, among the main movements of the past due portfolio, the restructuring of $1,050 and transfers to past due portfolio for $4,670, with which the past due portfolio increased from a balance of $2,332 as of January 1, 2020 to $5,746 as of December 31, 2020. The foregoing mainly affected the decrease of $2,532 in income from credit interests, as well as the increase in the expected loss and credit reserves (the preventive estimates for credit risks during the year amounted to $4,139 while in 2019 they were $1,806).

As of the date of issuance of these financial statements, the Institution continues to evaluate and supervise the recovery of borrowers very closely, mainly those affected by the contingency, in order to take timely actions in accordance with business plans and expectations of business recovery.

Financial margin. - Increase in funding costs, mainly due to the volatility in the exchange rate and in the funding rates of US Dollars and pesos (presented in the months of April-July), as well as in the cost of liquidity, mainly due to rescheduling of credits, which decreased the balance management margin by $500.

Markets. - Lower income was obtained in the National Money Desk mainly due to the valuation of the securities derived from the volatility in the markets that generated an increase in surcharges, with which there was a net loss of $111 in 2020; although the foregoing occurred during the months of June and July, at the end of the year, revenues recovered closing the Desk with positive results.

During 2020, financial indicators were presented monthly to the CAIR in order to monitor the impacts described, concluding that although the Financial Margin decreased 6%, it is the composite outcome of the reduction of 16% in interest income and 19% in Interest Expenses (as a result of the decrease in the reference rates in Mexican Pesos and US Dollars), with which such Financial Margin was sufficient to absorb the increase in preventive estimates for credit risks and losses in the position of securities of debt; additionally, although the Financial Margin decreased compared to 2019, it remained in relation to the average of the last three years, reflecting the strength of the Institution in generating profits.

This is due to the fact that the Institution has maintained its rate and profitability policies, with which capitalization and liquidity did not erode, remaining at levels that support the growth of the portfolio for the following year, hoping that the support measures favor the recovery of borrowers for the benefit of institutional financial indicators.

It is considered that the economic results in 2021 depend on the impacts of new waves of Covid-19 and the distribution and application of the vaccine, since the interruption of economic activity may continue to negatively affect the financial indicators of the Institution; therefore, continuity will be given to the programs described and to the monitoring of the financial performance of the borrowers as well as the financial position of the Institution and, where appropriate, to take actions to continue safeguarding its operational and financial capacity.

(27) Guarantees issued-

As of December 31, 2020 and 2019, the following guarantees were granted.

(Millions of Mexican pesos)

Purpose		2020	2019
Guarantee or partially guarantee an issuance of stock certificates that amounted to $ 1,430, guaranteeing up to 33% of the outstanding balance of the amount of this issue, for a maximum period of five years with payments of principal on a monthly basis, in order to improve the rating assigned to stock certificates by the rating agencies.	$	152	256
Partially guarantee payment of capital of up to 33% of capital payment plus the first period of interest, of a program of stock certificates whose amount will total up to $2,500 at a maximum term of 10 years, in order to improve the rating assigned to stock certificates by the rating agencies.		-	940
Guarantees issued in Mexican pesos	**$**	**152**	**1,196**

No losses were generated due to non-compliance with the guarantees in the years ended in December 2020 and 2019. The established allowances are detailed in Note 9 b).

(28) Contingent assets and liabilities-

Contingent liabilities include guarantees issued by the Institution to financial intermediaries; contingencies arising from commercial, labor, civil and administrative suits that according to Note 31 “Comprehensive risk management” are recorded depending on their status; and invoices subtracted from hedged financial factoring operations.

Assets represent recovered casualties (paid guarantees), contributions not yet made to the Fund of Funds (capital at risk), and bonds and checks received as guarantees by service providers.

The balances as of December 31, 2020 and 2019 are as follow:

		2020	2019
Contingent liabilities:			
Responsibilities for guarantees granted	$	12,956	13,680
Legal risk management		361	385
International factoring (Invoices)		787	612
Subtotal to the following sheet	$	14,104	14,677

(Millions of Mexican pesos)

		2020	2019
Subtotal of previous sheet	$	14,104	14,677
Contingent assets:			
Responsibilities for future contributions		78	74
Casualties recovered (guarantees paid)		468	467
		546	541
	$	**14,650**	**15,218**

During 2020 and 2019, the item of other recording accounts include: counter-guarantee funds of $3,203 and $3,302 respectively, and the loans eliminated pursuant to criterion B-6 Loan Portfolio for $12,113 and $9,725, respectively.

The Institution is involved in several lawsuits and claims, derived from the normal course of its operations, where it is expected that it will not have an important effect on its financial position and future results. In memorandum accounts these contingencies are recorded.

(29) Goods in trust or under mandate-

As of December 31, 2020 and 2019, the Institution´s fiduciary division has the following trusts:

		2020	2019
Guarantee trusts	$	40,725	33,845
Administration trusts		34,395	31,395
Transfer of ownership trusts		202	206
		75,322	65,446
Mandates		3,743	3,784
Total	**$**	**79,065**	**69,230**

As for the years ended on December 31, 2020 and 2019, the amount as per income for administration trusts is of $32 and $ 33, respectively.

Administration Trust balances include pension fund trust balances of the own Institution, whose balances as of December 31, 2020 and 2019 are as follow.

(Millions of Mexican pesos)

		2020	2019
Defined benefit	$	15,215	13,524
Defined contribution		234	215
Special savings loan and financial cost of loans		3,423	3,161
	$	**18,872**	**16,900**

(30) Assets in trust or under administration-

As of December 31, 2020, the operations of custody and administration are integrated as follow:

		Valued currencies				
		USD	**Euros**	**Francs**	**Mexican Pesos**	**Total**
Operations carried out on behalf of third parties in repurchase agreements	$	-	-	-	2,316	2,316
Operations carried out on behalf of third parties directly	$	-	-	-	3,129	3,129
Other instruments under administration *		710,552	4,319	488	311,585	1,026,944
Other securities under administration		3	-	-	-	3
Special savings loan		-	-	-	849	849
	$	**710,555**	**4,319**	**488**	**317,879**	**1,033,241**

As of December 31, 2019, the operations of custody and administration are integrated as follow:

		Valued currencies			
		USD	**Euros**	**Mexican Pesos**	**Total**
Operations carried out on behalf of third parties in repurchase agreements	$	-	-	6,004	6,004
Other instruments under administration*		725,888	3,052	350,201	1,079,141
Other securities under administration		4	-	-	4
Special savings loan		-	-	826	826
	$	**725,892**	**3,052**	**357,031**	**1,085,975**

* It corresponds to the recording of securities supporting the Institution´s loan portfolio.

(31) Comprehensive risk management (unaudited)-

a. General policies

The Institution's Comprehensive Risk Management is audited in accordance with Article 76 (Annual) and 77 (Biannual) of the CNBV Criteria, by an external firm according to the periodicity provided by the own criterion. The results are submitted to the Audit Committee, the Comprehensive Risk Management Committee and the Board of Directors and delivered to the CNBV.

The results of 2020 provide that the Institution reasonably complies with the current regulations and the best market practices.

The policies and practices for Comprehensive Risk Management (CRM) matters are primarily regulated by Chapter IV of the Second Title of the General Regulations Applicable to Financial Institutions (Regulations), regarding the CRM, published on December 2, 2005.

In accordance with the CNBV Regulations, the CRM function of the Institution is performed by an area independent from the business areas and includes the market, credit, liquidity, operating, technological, legal, strategic, business and reputation risks. The Institution has policies and procedures oriented to the risk identification, analysis and control, which are included in the CRM Manual.

In order that the risks assumed are within the levels that do not exceed the Institution's financial ability, the Committee for Comprehensive Risk Management (CCRM) proposes limits authorized by the Board of Directors, determined in accordance with a capital management model. Such model is in accordance with the regulatory capital and provides strategic limits considering a distributable capital assigned to the various businesses of the Institution: credit, market, operating and shareholding.

Moreover, strategic limits are assigned to the various portfolios that comprise each business. In case of market risk, the capital limits are translated into Value at Risk (VaR) limits for the various portfolios of the treasury.

The CCRM is constituted by the Director General, three independent risk experts, a member of the Board of Directors and the Head of the Unit for Comprehensive Risk Management (UCRM); in addition, the Assistant Director Generals of the business areas, the Directors of the Area and the responsible for the Internal Control Unit with the right to attend but not to vote the Committee´s meetings are involved, in order to avoid potential conflicts of interest.

The CCRM meets at least once a month. Such Committee supervises the different types of risks, makes recommendations and is responsible for approving the methodologies, models, parameters and scenarios used in risk measurement, and reviewing the policies proposed for control thereof.

(Millions of Mexican pesos, unless specified otherwise)

b. Policies for control of the credit portfolio concentration

The Regulations, in Chapter III, regarding "Risk Diversification", issued by the CNBV, provide limits to the credit risk concentration applicable to a person or group of people that constitutes common risks.

According to Article 57 of the Regulations, the limits applicable to the Institution in the fourth quarter 2020 were determined considering the capitalization index of 13.20% and the core capital of $30,754.85 of December 2019.

Article 54 of the Regulations provides a financing limit for private entities, based on the capitalization level and applying a predetermined factor on the Institution´s core capital. With a capitalization index higher than 12% and lower than 15%, the factor applicable in the fourth quarter of 2020 was 30% of the Institution´s core capital ($9,226.45, equivalent to 463.4 million US Dollars at the exchange rate of $19.9087 pesos per US Dollar on December 31, 2020).

As of December 31, 2020, financing granted to private entities, either individually or by economic group, is below the regulatory limit of 30% of the core capital and the responsibilities for the three major debtors, as a whole, amount to $12,858, representing 41.8% of the regulatory limit (equivalent to 645.8 million US Dollars at the exchange rate of $19.9087 as of December 31, 2020).

Financing to the three major debtors as a whole:

	Million US Dollars	
	December 2020	**December 2019**
Amount of responsibilities	645.80	690.00
Number of times the applicable core capital	0.41	0.41

Financing granted to entities and bodies of the public sector is below the regulatory limit of 100% of the core capital as of December 31, 2020.

Finally, in accordance with article 60 of the Regulations, it is disclosed that there are responsibilities by 28 economic groups of debtors (80 counterparties), whose individual financing is greater than 10% of the Institution´s core capital.

Debtor financing that is greater than 10% of the core capital:

	Million US Dollars	
	December 2020	**December 2019**
Amount of responsibilities	7,672.2	7,379.97
Number of times the applicable core capital	4.66	4.42

The number of responsibilities includes the lines authorized to national financial institutions for discount transactions, which have executed an agreement. In addition, it includes the lines authorized under the “General Banking Methodology for the Global Credit Line Establishment” of the Institution to enter into promotion, market and derivative transactions with national and foreign institutions that have a current position as of the date.

c. Market risk

Investment securities. Regarding the referenced account of the consolidated financial statements, the market risk arises from interest rate movements. In case of foreign currency instruments, it additionally depends on the exchange rate variations. This risk is measured using the VaR methodology, based on the historical method, taking 251 data, a one-day risk horizon and 97.5% reliable level, which only implies 2.5% of likelihood that these investments experience a shortfall greater than the one estimated for such period. These parameters were authorized by the CCRM in the meeting held in October 2020.

The policies and practices applied for control of market risk of investment securities include capital and VaR limits, as well as reporting of position market value and value of risk in regular conditions, under sensitivity scenarios and extreme conditions. On a daily basis, a report is prepared and delivered to the Top Management; on a monthly basis to the CCRM, and on a quarterly basis to the Board of Directors.

As of December 31, 2020, the securities position of the money desk securities in national currency was in floating-rate governmental instruments. As of that date, these instruments´ positions represented 0.12%, and 99.69%, respectively; whereas the securities Date Value represented 0.13% and the 0.06% corresponds to the corporate securities; the VaR of such money desk was $8.5, a figure that represented 38.5% of the authorized limit of $22. The annual value at risk average was $9.9. The capital consumption of this portfolio was $740.8, which represented 74% of the authorized limit.

As of December 31, 2020, the national currency investment portfolio consists of held to maturity securities in governmental instruments, at real rate, and floating-rate governmental instruments. As of that date, the position in held to maturity instruments represented 5.1% and governmental instruments represented 94.9%. As of the end of December, a VaR of $1.7 was recorded for the total position, which represented 27.5% of the authorized limit of $6. The annual value at risk average was $1.3. The capital consumption of this portfolio was $33.0, which represented 35% of the authorized limit.

As of December 31, 2020, the foreign currency investment portfolio did not present any position.

Derivatives- The referenced account of the financial statements is subject to market risk, arising from the interest rate and exchange rate variations, as well as to counterparty´s credit risk.

From the derivatives authorized, the VaR of currency and interest rate forwards, options and interest rate and currency swaps is measured. This VaR is measured using the historical method, taking 251 data, a one-day risk horizon and 97.5% reliance level, which only implies 2.5% of likelihood that these investments experience a shortfall greater than the one estimated for such period. These parameters were authorized by the CCRM in the meeting held in October 2020.

Regarding the credit risk (counterparty), the forwards, options and swaps are operated with national and international high quality financial institutions. The credit risk of forwards and options with customers is hedged by their lines of credit with the Institution, as well as control mechanisms that allow to monitor the positions to hold them within the authorized levels. As of December 31, 2020, the credit risk of derivative transactions is within the authorized limits.

The policies and practices for controlling the risk of derivatives are in accordance with Banxico's Regulations. A capital and VaR limit have been established by business line, and reports are prepared on the market value of the positions and their VaR in regular conditions, under scenarios of sensitivity and extreme conditions. On a daily basis, a report is prepared and delivered to the Top Management; on a monthly basis to the CCRM, and on a quarterly basis to the Board of Directors.

As of December 31, 2020, as for business derivatives, there are closed positions of interest rate options for currencies and a swap portfolio. The VaR amounted to $2.3, equivalent to $11.5% of the authorized limit of $20; the annual VaR average of derivatives was $1.5. The capital consumption of this portfolio was $0.00, which represented 0.0% of the authorized limit.

As of December 31, 2020, the hedge position derivatives refer to interest rate and currency swaps, which are used as hedge mainly for a part of the credit portfolio, debt instruments, issuance of paper national currency and US Dollar deposits. The VaR of swaps amounted to $1,552.4, which is on a referential basis, as these transactions are not associated to a VaR limit, because they are hedge derivatives.

As of December 31, 2020, there was a "flat" position in currencies. With the position presented, the VaR amounted to $0.0, without the consumption of the authorized limit of $11, as the annual VaR average was $1.7. The capital consumption of this portfolio was $2.0, which represented 0.005% of the authorized limit.

Credit risk

Regarding the referenced account of the financial statements, credit risk is measured by the expected losses arising from the potential impairment of the loan portfolio estimated from the calculation of annual and quarterly rating migration frequencies (transition matrices). Such matrices are constituted by impairment or improvement probabilities of the credit portfolio, which are obtained from historical information from companies authorized by the Institution.

Consequently, in assessing the credit risk, estimates are made about the noncompliance likelihoods, recoverability rates, transition matrices, credit VaR, expected losses and unexpected losses.

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A report of the Institution's credit operations and position is submitted monthly to the CCRM and quarterly to the Board of Directors including, among other matters, an analysis of the loan portfolio taxonomy, relevant information of the portfolio movements, global credit risk position and inclusion by portfolio, past due loan portfolio, risk concentrations, portfolio diversification and primary risk indicators, as well as allowances for loan VaR and expected and unexpected losses.

As of December 31, 2020, the descriptive statistic of the private portfolio credit risk shows the following distribution by number of borrowers, regarding the average risk level.

Distribution of Private Sector Portfolio in December 2020

Number of counterparties	Balance	Str. (%)	Accumulated balance	Str. (%)	Expected loss (EL)	EL / Balance (%)	Risk level (average)
1 - 5	$ 18,911	9.5	18,911	9.5	83	0.4	R2
6 - 10	16,699	8.4	35,610	17.8	1,241	7.4	R5
11 - 15	14,219	7.1	49,828	24.9	200	1.4	R2
16 - 20	11,686	5.8	61,514	30.7	174	1.5	R3
21 - 25	10,272	5.1	71,786	35.9	220	2.1	R3
26 - 30	9,451	4.7	81,238	40.6	99	1.0	R2
31 - 355	118,792	59.4	200,030	100.0	3,426	2.9	R3
Total	**$200,030**	**100.0**			**$5,443**	**2.7**	**R3**

As of that date, the annual VaR (without considering the expected recovery from guarantees) of the private sector portfolio was $8,877, a figure that represents the extreme value of the loss and gains distribution due to the potential impairment of the portfolio with 99% reliance level and an annual period horizon.

Regarding the basic capital as of December 31, 2020, which is $32,567, the annual VaR represents 27.25%.

The allowance for expected loss due to the private sector portfolio impairment was $3,381, using the portfolio risk levels in accordance with the Institution's risk indicator methodology.

Additionally, the referred report presents the structure of strategic capital limits, and the marginal behavior of the qualified portfolio, the credit concentration by economic sector, geographic area, recognized entities and levels of responsibilities.

The Board of Directors in its meeting on October 29, 2019 ratified the capital limit at a strategic level for the loan portfolio for $ 18,414.0 representing 84.03% of the distributable capital ($ 21,914.0), while in the meeting of December 1, 2020, it was updated the limit for an amount of $ 20,625.0 representing 82.96% of distributable capital ($24,860.0).

(Millions of Mexican pesos, unless specified otherwise)

Liquidity risk

The cash flow risk of credit transactions and their respective financing is measured by the risk factor: rate basis and overrate. The CCRM is reported, on a monthly basis, the structure of repricing and maturity gaps, with a sensitivity analysis that measures the effect of adverse movements in the interest rate on the financial margin; furthermore, the diversification level of the financing sources is estimated.

According to the structure of repricing and maturities of the productive assets and onerous liabilities of the current balance sheet as of December 2020, in foreign currency in one year, the sensitivity due to a decrease in the base rate of 50 basis points produces a decrease of 3.8 thousand US Dollars a day, equivalent to 1.2% of the daily financial margin, while in national currency using the same variables the decrease is 15 thousand US Dollars a day, equivalent to 3.5% of the daily margin.

Non-discretionary quantifiable risks

The management of non-discretional risk aims to identify, measure, oversee, limit, control and inform of operational, technological and legal risks associated with the Institution's critical processes, which allow for pinpointing concentration levels in such processes, their operating efficiency as well as an estimate of the resulting economic impact.

With a view to identify quantifiable risks and determine their average exposure value by type of event and line of business, below are the results for the period from January 2008 to December 2020.

Type of event	No. of events	Frequency % Total	Frequency Losses	Severity % Total	Severity Unit
Process execution, delivery and management	109	91	$32	94	$ 0.3
External events	3	3	1	3	0.3
Business incidences and system failures	6	4	1	3	0.2
Customers, products and business practices	1	1	-	-	-
External fraud	1	1	-	-	-
Internal fraud	-	-	-	-	-
Labor relations and workplace safety	-	-	-	-	-
Total	**120**	**100.0**	**$34**	**100**	**0.3**

According to the matrix by type of event, execution, delivery and management concentrates 91% of frequency and 94% of severity.

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Line of business	No. of events	Frequency % Total	Frequency Losses	Severity % Total	Severity Unit
Trading and sales	43	36	$ 20	61	$ 0.5
Commercial banking	56	47	12	35	0.2
Payment and settlement	19	15	2	4	0.1
Retail banking	2	2	-	-	-
Assets management	-	-	-	-	-
Corporate finance	-	-	-	-	-
Retail intermediation/retail brokerage transactions	-	-	-	-	-
Agency services	-	-	-	-	-
Total	**120**	**100.0**	**$ 34**	**100**	**0.3**

As for the matrix by line of business, commercial banking concentrates 47% of the frequency and 35% de la severity, while trading and sales account for 36% of frequency and 61% of the severity.

The average exposure value of cumulative events as of December 31, 2020 is $0.3.

Operational risk

The risk is subject to qualitative and quantitative analysis and to regulatory compliance:

Qualitative analysis – Made by applying self-assessments to selected critical processes and issuing an operational risk technical report. The Institutional Operational Risk is of Medium Risk level.

Quantitative analysis – Losses arise from the accounts defined for the recording of events by operational risk. The operational risk reserve authorized in 2020 is $9, i.e., the tolerance level for controlling event exposure by operational risk. As of the end of 2020, the accumulated consumption was $5.2, so the balance was $3.8.

Regulatory compliance – The Institution uses the basic indicator method for estimating its operational risk capital requirements in accordance with capitalization rules for credit institutions; the operational risk capital requirements as per operational risk amounted to $1,150 at the end of December 2020.

Technological risk

Technological risk is measured and controlled by monitoring six critical indicators: 1) level of availability of critical services; 2) access security to the Institution´s network; 3) detection, blocking and locks against viruses in the Institution´s network; 4.a) detection and blocking of access to restricted websites; 4.b) detection and blocking of emails using AntiSPAM; 4.c) detection and blocking of SpyWare, and 5) testing of the Disaster Recovery Plan (DRP).

Additionally, the Technological Risk is assessed by means of an indicator that considers the level of criticality of applications and the likelihood of incident occurrence. Also, the Business Continuity Plans (BCP) are implemented for processes deemed critical under the Management System for the Business Continuity Plan (MS-BCP). As of December 31, 2020, the indicators show that in general terms the goals defined for each indicator were met.

Legal risk

Policies are implemented for identifying, measuring and recording provisions and/or contingencies for potential losses arising from unfavorable resolutions in a judicial process resulting from litigation where the Institution is either the plaintiff or the defendant, for the purpose of mitigating the impact on the Institution´s net worth.

The CCRM, in its meeting on September 10, 2019, approved the change of the Legal Risk Methodology (LRM) authorized until that date that started from the "Expectation of Losing", to the application of the Method of Legal Risk Management (MLRM), which allows to identify and classify the judgments based on the progress in the procedural stages and the resolution of the legal instances. As indicated in Note 25.- Other operating expenses, net, the change in methodology represented an increase of $ 100 in provisions in 2019, to which it was applied prospectively as these are changes in accounting estimates, in accordance with Financial Reporting Standard B -1 Accounting changes and error correction.

With the implementation of the method authorized by CCRM on September 10, 2019, the reserves created for legal risk as of December 2020 amounted to $162, comprised as follows: $64 for commercial lawsuits, $59 for administrative lawsuits; $16 for labor trials; $14 for civil lawsuits; $7 for costs and expenses, and the item of account of third parties for $2.

Furthermore, according to such policies, memorandum accounts are used for recording contingencies resulting from commercial, labor, civil and administrative actions which, considering their procedural status; the Management expects to be resolved favorably for the Institution.

Non-quantifiable risks

Non-quantifiable risks are risks arising from unforeseen external claims or events that may not be associated with a likelihood of occurrence and that in addition, the resulting economic losses may be transferred to risk-taking external entities.

The result of the application to the second semester of 2020 of the Reputation Risk Management Method, increased from "Moderate" to "Strong" with respect to the 2019 financial year; therefore, the positioning and prestige of the Institution increased and it continues to be remarkably recognized.

(32) Recently issued financial reporting standards -

Amendments in the Commission provisions

On December 27, 2017, the CNBV published in the Official Gazette the "Resolution that modifies the General Provisions applicable to Credit Institutions" through which it incorporated certain Financial Reporting Standards issued by the Mexican Board of Financial Reporting Standards, and referred to in paragraph 3 of Criterion A-2 "Application of particular regulations" of Appendix 33 of the CUB, in order to make them applicable to credit institutions, effective on January 1, 2019. On November 4, 2019, the CNBV announced through the Official Gazette the modification in the entry into force of that FRS as of January 1, 2021.

On March 13, 2020, the CNBV published in the Official Gazette the "Resolution that modifies the General Provisions applicable to Credit Institutions" through which, among others, it updated the accounting criteria applicable to credit institutions to make them consistent with the national and international financial reporting standards, it modified the concept of current portfolio and past-due portfolio, by portfolio in stages 1, 2 or 3 and established that the estimation of the expected losses of the loan portfolio is carried out considering these stages, as well as it allowed the incorporation of models to qualify such loan portfolio with internal ones or those based on FRS C-16, effective on January 1, 2021.

On December 4, 2020, the CNBV released through the Official Gazette, the "Resolution that modifies the General Provisions applicable to Credit Institutions", through which it postponed until January 1, 2022, the entry into force of the modifications to the accounting criteria published on March 13, 2020 and the entry into force of the following FRSs indicated in the Resolution published on December 27, 2017:

FRS B-17, Determination off air value- Exit price that would be received for selling an asset, or paid to transfer a liability, in an orderly transaction between market participants at the valuation date. To determine the fair value, it is necessary to consider: a) the particular asset or liability that is being valued; b) for a non-monetary asset, the greatest and best use of the asset, and whether the asset is used in combination with other assets or on an independent basis; c) the market in which an orderly transaction would take place for the asset or liability, and d) the appropriate valuation techniques to determine fair value.

FRS C-3, Accounts receivable- The main changes are that it establishes: a) accounts receivable based on a contract represent a financial instrument; b) the estimate for bad debts for commercial accounts is recognized based on the expected credit losses, when the income is accrued; c) the value of money must be considered in the time from the initial recognition, and d) present an analysis of the change between initial and final balances of the estimate for bad debts.

FRS C-9, Provisions, contingencies and commitments- It was adjusted in the definition of liability, the term of probable eliminating that of virtually unavoidable.

FRS C-16, Impairment of financial instruments receivable (IFC for its acronym in Spanish)- It states that the expected losses due to deterioration of IFC must be recognized when the credit risk has increased, it is concluded that a part of the future cash flows of the IFC will not be recovered. This expected loss must be recognized based on the historical experience of credit losses, current conditions and reasonable and sustainable forecasts of the different quantifiable future events that could affect the amount of future cash flows to be recovered from the IFCs. For IFC that accrue interest, it must be determined how much and when it is estimated to recover, since the recoverable amount must be estimated at its present value.

FRS C-19, Financial instruments payable- It establishes: a) the possibility of valuing certain financial liabilities at their fair value; b) value long-term liabilities at their present value at initial recognition, considering their value at the time when their term is greater than one year or outside normal credit conditions, and c) when restructuring a liability, without substantially modifying future cash flows to settle it, the costs and commissions incurred in this process will affect the amount of the liability and will be amortized over a modified effective interest rate, instead of directly affecting the net profit or loss.

FRS C-20, Financial instruments receivable, principal and interest- It determines the classification of financial instruments based on the business model, as follows: a) if it is to generate a profit through contractual performance, they are recognized at amortized cost; b) if they are also used to generate a profit based on their purchase/sale, they are recognized at their fair value. Additionally, it indicates that the implicit derivative instrument that modifies the flows of principal and interest of the host instrument should not be separated, but that everything will be valued at its fair value, as if it were a negotiable financial instrument.

FRS D-1, Revenue from contracts with customers- It contains the rules for valuation, presentation and disclosure of the income that comes from contracts with clients, the recognition of income through the transfer of control, identification of obligations to fulfill a contract, allocation of the amount of the transaction and the recognition of the right of collection. It eliminates the supplementary nature of the International Accounting Standard 18 “Income from Ordinary Activities” and its interpretations.

FRS D-2, Costs from contracts with customers- It establishes the regulations related to the recognition of costs for contracts with customers and incorporates the accounting treatment of costs related to contracts for the construction and manufacture of capital goods, including costs related to client contracts. In conjunction with FRS D-1 “Revenue from contracts with customers”, FRS D-2 abrogates Bulletin D-7 “Construction and manufacturing contracts for certain capital goods” and the Interpretation of the FRS 14 “Contracts for construction, sale and provision of services related to real estate”.

FRS D-5, Leases- The accounting recognition for the lessor has no changes, only disclosure requirements are added. For the lessee, it eliminates the classification of the leases as operating or capitalizable and must recognize an asset for the right to use the underlying leased asset and a lease liability that reflects the obligation of payments for leasing at present value, of leases greater than 12 months. Therefore, with this FRS: a) it is necessary to evaluate, at the beginning of the contract, whether the right to control the use of an identified asset is obtained for a certain period of time; b) the operating lease expense is replaced by an expense for depreciation or amortization of the right of use assets and an interest expense on the lease liabilities;

c) The presentation in the statement of cash flows is modified by decreasing the cash outflows from operating activities, and increasing the cash flow outflows from financing activities to reflect the payments of lease liabilities; d) modifies the recognition of profit or loss when a lessee transfers an asset to another entity and leases that asset by way of return.

As of the date of issuance of these consolidated financial statements, the institution is still in the process of determining the effects of these new standards and of the modifications in the accounting criteria applicable to credit institutions on its financial information.

New accounting pronouncements for the year ended on December 31, 2020

CINIF has issued the following FRSs which may impact the Company´s financial statements as of December 31, 2020.

Improvements to the 2020 FRSs

a. In force as from January 1, 2020 these are the changes on the improvements to the FRSs:

Improvements to the FRSs generating accounting changes

- FRS C-16, Deterioration of financial instruments receivable.
- FRS C-19, Financial instruments payable.
- FRS C-20, Receivable financing instruments, principal and interest.
- FRS D-3, Employee benefits.
- FRS D-4, Taxes on profit.
- FRS D-5, Leases.

Improvements to the FRSs not generating accounting changes

- FRS B-1, Accounting changes and error correction.
- FRS B-8, Consolidated or combined financial statements.
- FRS B-11, Disposition of long-lived assets and discontinued operations.
- FRS C-2, Investment in financial instruments.
- FRS C-3, Accounts receivable.
- FRS D-2, Costs as per contracts with customers.
- FRS D-5, Leases.

b. In force as from January 1, 2020, these are the following FRSs:

- FRS B-11, Disposition of long-lived assets and discontinued operations.
- FRS E-1, Agricultural and livestock activities.

The Institution has evaluated the effects of these changes and has concluded that they have no impact on the financial statements.

New accounting pronouncements for subsequent years

CINIF has issued the following FRSs which may impact the Company´s financial statements as from January 1, 2021 and subsequent years:

Improvements to the 2021 FRSs:

a. In force as from January 1, 2021, these are the changes on the improvements to the FRSs:

Improvements to the FRSs generating accounting changes:

- FRS B-1, Accounting changes and error correction.
- FRS C-2, Investment in financial instruments.
- FRS B-3, Statement of comprehensive income.
- FRS C-2, Investment in financial instruments.
- FRS C-19, Financial instruments payable.
- FRS C-20, Receivable financing instruments, principal and interest.
- FRS D-5 Leases.

Improvements to the FRSs not generating accounting changes:

- FRS B-6, Statement of financial position.
- FRS C-4, Inventories.
- FRS C-7, Investments in associates, joint ventures and other permanent investments.
- FRS C.8, Intangible assets.

b. In force as from January 1, 2021, these are the following FRSs:

- FRS C-17, Investment properties.
- FRS C-22, Cryptocurrencies.

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(Millions of Mexican pesos)

At the issuance date of these financial statements, the Institution is in the process of determining the effects of these new standards on its financial information.

SIGNATURE	SIGNATURE
Carlos Noriega Romero Chief Executive Officer	José Alberto Gómez Sandoval Deputy General Director of Administration and Finance
SIGNATURE	SIGNATURE
Julia Noemí Rodríguez Kú Director of Accounting and Budget	Víctor Manuel Jiménez García Director of Internal Audit