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

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(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" (the "Organic Law"). Based on the provisions published in the June 24, 2002 Official Gazette, the Ministry of Finance (SHCP for its acronym in Spanish) amended, added and repealed various provisions thereof, especially aspects regarding the objectives, operations, administration, supervisions and authority of the Board of Directors of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 SHCP issued the Integral Regulations of the Institution. On September 25, 2017, the Official Gazette published a new set of amendments to the Organic Law.

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 for 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, and 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, 2019 and 2018 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 in the following sheet.

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Institución de Banca de Desarrollo and Subsidiary

Notes to Consolidated Financial Statements

(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 that will house the Institution's offices.

DIESA´s total assets comprise 0.12% of the Institution´s total assets as of December 31, 2019 and 2018.

(2) Financial Statement authorization and presentation-

Authorization-

The accompanying consolidated financial statements and their notes as of December 31, 2019 and for the year then ended, were authorized by the executives that subscribe them: Eugenio Francisco Domingo Nájera Solórzano (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) and the Board of Directors in the session of February 26, 2020 (March 7, 2019, for the consolidated financial statements of 2018).

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 Institution´s Board of Directors and the CNBV are empowered to modify the accompanying consolidated financial statements for 2019, 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, who is responsible for the inspection and supervision of credit institutions and for reviewing their financial information.

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 per its Spanish acronym) 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 – Book value of investment 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 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 UDI´s value)

(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 Unit Investment (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**
2019	6.399018	2.77%	15.03%
2018	6.226631	4.92%	15.71%
2017	5.934551	6.68%	12.60%

(b) Principles of consolidation-

The consolidated financial statements include those of the Institution and those of its subsidiary over which it has control, 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, 2019 and 2018 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 “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 caption "Unrealized gain (loss) from valuation of available for sale securities". The valuation that has been previously recognized in 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 of December 31, 2019 and 2018.

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 “Intermediation result”. 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 of operations”, 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, 2019 and 2018, 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 and regardless of whether they are “cash oriented” or “securities oriented”. 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 on repurchase 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 is made or a clearing account is recognized, as a receivable account valued at the origination price is under the caption "Debtors on repurchase 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 custody and management". 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 under Repurchase 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 earn profits in accordance with the policies and limits established by the Comprehensive Risk Management Committee (CAIR for its acronym in Spanish), and for hedge purposes in order to compensate market risks arising from fluctuations in exchange and interest rates, as well as from counterparty risk. In accordance with criterion B-5 "Derivative instruments and hedge operations" issued by the CNBV, hedge operations are classified as fair value, cash flows and foreign currency operations; the 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 associated to USD (assets and liabilities), 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.

At December 31, 2019 and 2018, the Institution had no operations in futures 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, that limits the credit and legal risks inherent in this type of operations.

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 is issuing or selling the option to receives a premium and in turn acquires an obligation, yet not a right.

Trading derivatives

The valuation effect of trading derivatives is recognized in the consolidated balance sheet and 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 "Other accounts receivable" and "Sundry creditors and other accounts payable", respectively, 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 originated by the Institution are recognized as assets 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 and the level of the allowance for loan losses is maintained 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.

(i) Allowance for loan losses-

The commercial loan portfolio was rated on December 31, 2019 and 2018 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.

The Institution's commercial loan portfolio was rated based on the general methodology using an expected loan loss model.

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:

$$R_i = PI_i \text{ X } SP_i \text{ X } EI_i$$

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

(Millions of Mexican pesos)

The commercial loan loss reserve is classified depending on the degree of risk and the percentages shown as follows:

Risk levels	Ranges 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 (Exhibit 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 (Exhibit 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 (Exhibit 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 (Exhibit 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.

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(Millions of Mexican pesos)

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.

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 are those set up to cover risks that were 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, 2019, the Institution recorded additional allowance for loan losses for $464. As of December 31, 2018, the Institution did not record additional allowance for loan losses.

Recovery of loans previously written-off is recognized in income for the period as they are charged.

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. If the amount to be written-off exceeds the recorded estimate, it is recorded as other operating income.

On December 27, 2017, the CNBV published, in the Federal Official Gazette, the resolution that amends the Provisions established in Accounting Criteria B-6 “Loan Portfolio” and D-2 “Income Statement” of the Exhibit 33, relative to the fact that the excess of the preventive allowance for credit risks and any recovery derived from credits previously written-off or eliminated, must be recognized in the income for the year under the item "Allowance for loan losses” in the income statement, effective as of January 1, 2019.

Therefore, in the consolidated statement of income for the year ended December 31, 2018, these items were reclassified to make it comparable with that corresponding to the year ended December 31, 2019, as shown below:

Concept		**Reported figures**	**Reclassification**	**Reclassified figures**
Allowance for loan losses	$	(2,554)	486	(2,068)
Other operating incomes (expenses)		(2,815)	(486)	(3,301)

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)	Percentage of reserve (%)
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)	Percentage of reserve (%)
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.

At December 31, 2019 and 2018, there were no signs of impairment in the long-life assets with defined lives and therefore, there was no need to conduct annual testing of their recoverable values.

(m) Permanent investments in associates-

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 relate 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 funding-

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.

(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 caption 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 B-1 “Cash and cash equivalents criteria” 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.

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, 2019 and 2018.

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 2019 and 2018, 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 his/her 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 a 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 comprehensive income for 2019 and 2018 is expressed in millions of historical 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 Banco de Mexico for foreign currency operations:

a. The position, either long or short, in 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 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 the 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), 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 Organic Law.

(4) Foreign currency operations-

At December 31, 2019 and 2018, foreign currency operations carried out in the currencies used by the Institution and the position of currencies were as follows:

2019

	(In thousands)					
	Assets	**Liability**	**Position in Currency**	**Exchange Rate**		**Millions of Mexican**
Currencies	**Currency source**		**Source**	**In Mexican pesos**		**pesos**
US Dollar	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**

2018

	(In thousands)						
	Assets	**Liability**	**Position in Currency**		**Exchange rate**		**Millions of Mexican**
Currencies	**Currency source**		**Source**		**Position**		**pesos**
US Dollar	8,507,788	8,496,898	10,890	$	19.65120	$	214
Pound sterling	255	14	241		25.04742		6
Euro	45,383	43,009	2,374		22.46918		53
						$	**273**

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 246,679 thousand and USD 220,300 thousand at December 31, 2019 and 2018, respectively.

The exchange risk position (not covered) at December 31, 2019 and 2018 was as follows.

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		Currencies valued to USD (thousands)	
		2019	**2018**
US Dollar	$	46,232	57,573
Pound sterling		301	325
Euro		8,404	2,715
Total	**$**	**54,937**	**60,613**

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

		Exchange rates	
Currency		**2019**	**2018**
US Dollar	$	1.000000	1.000000
Pound sterling		0.755059	0.784559
Euro		0.890869	0.874584

At December 31, 2019 and 2018, the exchange rates used to convert figures to Mexican pesos are as follows:

		Exchange rates	
Currency		**2019**	**2018**
US Dollar	$	18.864200	19.651200
Pound sterling		24.983750	25.047420
Euro		21.175060	22.469180

At February 26, 2020, issuance date of the financial statements for the year ended on December 31, 2019, the exchange rates used to convert figures to Mexican pesos are as follow:

Currency		**Exchange rates**
US Dollar	$	19.1585
Pound sterling		24.7758
Euro		20.8550

(5) Cash and cash equivalents-

At December 31, 2019 and 2018, cash and cash equivalents are made up as follow.

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		2019	2018
Cash, bills and coins		6	6
Demand deposits	$	17,996	16,645
Deposits in the Treasury of the Federation		4,648	-
Time deposits		3,492	5,253
Deposits in domestic banks		3,411	3,987
Deposits in foreign banks		1,377	650
Interbank loans (Call Money)		327	827
	$	**31,257**	**27,368**

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

Demand deposits:

	2019				2018			
Currency source	**Average rate**	**Term days**	**Currency source thousands**	**Mexican peso**	**Average rate**	**Term days**	**Currency source thousands**	**Mexican pesos**
US Dollar	1.53%	2	954,000	17,996	2.39%	2	847,000	$ 16,645

Time deposits:

	2019				2018			
Currency source	**Average rate**	**Term days**	**Currency source thousands**	**Mexican peso**	**Average rate**	**Term days**	**Currency source thousands**	**Mexican pesos**
US Dollar	1.80%	11	185,084	3,492	2.60%	20	267,306	$ 5,253

Domestic bank deposits:

	2019			2018		
	Thousands of DLS		**Mexican peso**	**Thousands of DLS**		**Mexican peso**
Banco de México Foreign Currency (F.C.)	63	$	1	500	$	10
Banco de México MXP	-		3,283	-		3,282
Other banks F.C.	4,480		85	24,118		474
Other banks MXP	-		42	-		221
		$	**3,411**		**$**	**3,987**

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Deposits in foreign banks:

	2019			**2018**		
	Currency source (thousands)		**Mexican peso**	**Currency source (thousands)**		**Mexican peso**
Mexican peso	135	$	-	135	$	-
US Dollar	55,596		1,049	26,047		512
Pound sterling	227		6	255		6
Euros	15,218		322	5,874		132
		$	**1,377**		**$**	**650**

Call Money:

		2019				**2018**				
Currency source	**Rate**	**Term days**	**Currency source thousands**		**Mexican peso**	**Average rate**	**Term days**	**Currency source thousands**		**Mexican peso**
Domestic banks:										
MXP	7.25%	2	327,457	$	327	8.25%	2	198,480	$	198
F.C.						2.49%	2	32,000		629
				$	**327**				**$**	**827**

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 (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, 2019 and 2018, the net balance of currencies to be received and delivered was reclassified for $153 and $ 72, respectively, in accordance with the Accounting Criteria for Credit Institutions.

(Millions of Mexican pesos, unless specified otherwise)

(6) Investments in securities-

Investments in 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.

Risk management policies, and the analysis of risk to which the Institution is exposed, are described in Note 28.

At December 31, 2019 and 2018, investments in securities were comprised as follow:

a. Trading securities:

		2019	2018
Repurchase operation securities (note 7)	$	133,490	125,889
Unrestricted government bonds		10,495	8,557
	$	**143,985**	**134,446**

- Repurchase agreements

Repurchase operations at December 31, 2019 and 2018 are comprised as follow:

	2019				2018			
Instrument	**Acquisition cost**	**Accrued interests**	**Increase (decrease) for valuation**	**Fair value**	**Acquisition cost**	**Accrued interests**	**Increase (decrease) for valuation**	**Fair value**
BONDES D	100,920	299	93	$101,312	89,658	241	94	$ 89,993
BONOS	32	-	1	33	-	-	-	-
BPAG182	15,625	397	48	16,070	11,144	268	(18)	11,394
BPAG28	2,992	13	-	3,005	4,221	4	-	4,225
BPAG91	10,512	104	31	10,647	18,797	229	(6)	19,020
CETES	1,927	-	(1)	1,926	1,259	-	(2)	1,257
UDIBONOS	499	2	(4)	497	-	-	-	-
	132,507	**815**	**168**	**$133,490**	**125,079**	**742**	**68**	**$125,889**

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.

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Held to maturity securities:

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**

2018					
Instrument	**Under 1 year**	**From 1 to 3 years**	**From 3 to 5 years**	**Greater than 5**	**Acquisition cost**
BONDES D	-	22,079	67,579	-	89,658
BPAG182	386	-	4,874	5,884	11,144
BPAG28	-	4,221	-	-	4,221
BPAG91	3,220	6,871	8,706	-	18,797
CETES	1,259	-	-	-	1,259
	4,865	**33,171**	**81,159**	**5,884**	**$ 125,079**

- Unrestricted government bonds

At December 31, 2019 and 2018, the unrestricted government bonds are comprised as follow:

	2019				**2018**			
Instrument	**Acquisition cost**	**Accrued interests**	**Increase (decrease) for valuation**	**Fair value**	**Acquisition cost**	**Accrued interests**	**Increase (decrease) for valuation**	**Fair value**
BONDES D	10,465	11	19	$10,495	8,519	27	11	$ 8,557

(Millions of Mexican pesos, unless specified otherwise)

Maturity terms:

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

Instrument	Under 1 year	From 1 to 3 years	From 3 to 5 years	Greater than 5	Total 2018
BONDES D	-	5,984	2,535	-	$ 8,519

At December 31, 2018, the Institution does not have purchase – sale of securities value date.

At December 31, 2019 and 2018, the Institution does not have securities in guarantee.

b. Available for sale securities:

		2019	2018
Shares MXP	$	40	40
Shares USD		17	15
Obligations and other securities in US Dollars		-	-
	$	**57**	**55**

- Shares in Mexican pesos

Shares in Mexican pesos at December 31, 2019 and 2018 are comprised as follow:

		2019			2018		
		Acquisition cost	Fair value	Unrealized loss	Acquisition cost	Fair value	Unrealized loss
Unlisted	$	97	40	(57)	97	40	(57)

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

Shares in foreign currency at December 31, 2019 and 2018 are comprised as follow:

		2019			2018		
		Acquisition cost	**Fair value**	**Unrealized loss**	**Acquisition cost**	**Fair value**	**Unrealized loss**
Unlisted in USD	$	8	17	9	8	15	7

Dividends collected from shares available for sale in 2019 and 2018 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, 2019 and 2018, was $2 and $0, respectively.

- Obligations and other securities

Obligations and other securities at December 31, 2019 and 2018 are as follow:

		2019				2018		
		Carrying amount	**Fair value**	**Deficit***		**Carrying amount**	**Fair value**	**Deficit***
Debt certificates	$	65	-	(65)	$	68	-	(68)

* Impairment recognized in income from prior fiscal years.

c. Held to maturity securities:

		2019	**2018**
Government bonds	$	171	168

(Millions of Mexican pesos)

Government securities at December 31, 2019 and 2018 are comprised as follow:

		2019			2018		
		Cost	**Provision interests**	**Total**	**Cost**	**Provision interests**	**Total**
Government securities (*)	$	169	2	171	166	2	168

* 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 for the years ended on December 31, 2019 and 2018:

		2019	**2018**
Interest income	$	11,257	12,166
Valuation result		110	38
Result from purchase and sale of securities		110	25
	$	**11,477**	**12,229**

(7) Repurchase/resale agreements-

Repurchase/resale agreements carried out at December 31, 2019 and 2018 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 under repurchase/resale agreements

		2019	**2018**
Government bonds	$	1,580	5,000
Commercial repurchases		771	773
Total		2,351	5,773
Securities received as collateral for repurchase agreements:			
Government bonds		(1,580)	(5,000)
Total debtors for repurchase/resale agreements	**$**	**771**	**773**

(Millions of Mexican pesos)

- Collateral received by the entity (Memorandum accounts)

		2019	2018
Government bonds	$	1,580	4,999
Business repurchase agreements		992	974
Total	**$**	**2,572**	**5,973**

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

		2019	2018
Government bonds	**$**	**1,580**	**5,000**

b. Buyer

- Creditors for repurchase agreements

		2019	2018
Securities owned by the Institution[1]:			
Government bonds	**$**	**129,698**	**125,821**

1 Repurchased securities are recognized as securities held for trading.

In 2019 and 2018 the interests obtained from repurchase/resale agreements amounted to $480 and $463, respectively, and the interests paid for repurchase agreements amounted to $10,470 and $10,924, respectively.

(8) Derivatives-

At December 31, 2019 and 2018, derivatives are made up of rate options held for trading and fair value and hedging swaps as shown below:

		2019		2018	
		Assets	Liability	Assets	Liability
For trading:					
SWAPS	$	424	352	109	36
Options		1	1	7	7
	$	425	353	116	43
For hedging:					
SWAPS		1,758	5,623	1,371	8,346
	$	**2,183**	**5,976**	**1,487**	**8,389**
Net position	**$**		**3,793**		**6,902**

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At December 31, 2019 and 2018, the Institution has contracted swaps for an equivalent of 6,744 and 5,972 millions of USD respectively, and purchase-sale options for trading of 40.12 and 46.2 million of USD, respectively as shown below:

		2019		2018	
		Purchase	**Sale**	**Purchase**	**Sale**
Hedge Swaps:					
To hedge the portfolio	$	43,223	44,006	42,066	41,376
To hedge securities or security liabilities		77,046	80,129	68,102	75,767
		120,269	124,135	110,168	117,143
For trading		11,687	11,614	10,112	10,039
Options		1	1	7	7
	$	**131,957**	**135,750**	**120,287**	**127,189**
Net position	**$**	**3,793**		**6,902**	

To hedge the loan portfolio:

			Thousands in currency source			**Mexican pesos**	
	Type of swap	**Currency source**	**Principal**	**Interest**	**Total**	**2019**	**2018**
Purchase	Rate	USD $	1,164,554	160	1,164,714	$21,971	19,576
Purchase	Rate	MXP $	20,107,638	207,311	20,314,949	20,315	21,653
Purchase	Currency	MXP $	934,620	2,809	937,429	937	837
						$43,223	**42,066**

				Thousands in currency source				**Mexican pesos**	
	Type of swap	**Currency source**		**Principal**	**Interest**	**Total**		**2019**	**2018**
Sale	Rate	USD	$	1,164,554	1,102	1,165,656	$	21,989	19,586
Sale	Rate	MXP	$	20,107,638	78,732	20,186,370		20,186	21,607
Sale	Currency	EUR	$	42,822	342	43,164		914	835
							$	43,089	42,028
Valuation	Rate	USD				39,500	$	746	(127)
Valuation	Rate	MXP				171,282		171	(525)
							$	**44,006**	**41,376**

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To hedge security or bond liabilities:

			Thousands in currency source				Mexican pesos	
	Type of swap	Currency source	Principal	Interest	Total		2019	2018
Purchase	Currency	MXP	39,780,129	449,827	40,229,956	$	40,230	32,927
Valuation	Currency	MXP			22,207		22	(935)
						$	40,252	31,992
Purchase	Currency	DLS	260,000	149	260,149	$	4,908	1,968
Valuation	Currency	DLS			(41)		(1)	(1)
						$	4,907	1,967
Purchase	Rate	DLS	1,409,048	8,697	1,417,745	$	26,745	27,910
Valuation	Rate	DLS			272,605		5,142	6,233
						$	31,887	34,143
						$	**77,046**	**68,102**

			Thousands in currency source				Mexican pesos	
	Type of swap	Currency source	Principal	Interest	Total		2019	2018
Sale	Currency	DLS	2,283,480	7,305	2,290,785	$	43,214	37,865
Valuation	Currency	DLS			23,034		434	792
						$	43,648	38,657
Sale	Currency	MXP	4,919,400	10,171	4,929,571	$	4,930	2,035
Valuation	Currency	MXP			(2,330)		(2)	(1)
						$	4,928	2,034
Sale	Rate	DLS	1,409,048	6,085	1,415,133	$	26,695	27,886
Valuation	Rate	DLS			257,506		4,858	7,190
						$	31,553	35,076
						$	**80,129**	**75,767**

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For trading:

			Thousands in currency source				Mexican pesos	
	Type of swap	**Currency source**	**Principal**	**Interest**	**Total**		**2019**	**2018**
Purchase	Rate	MXP	1,697,856	184	1,698,040	$	1,698	586
Valuation	Rate	MXP			363,364		363	194
						$	2,061	780
Purchase	Rate	DLS	422,432	169	422,601	$	7,973	7,343
Valuation	Rate	DLS			87,617		1,653	1,989
						$	9,626	9,332
						$	**11,687**	**10,112**

			Thousands in currency source				Mexican pesos	
	Type of swap	**Currency source**	**Principal**	**Interest**	**Total**		**2019**	**2018**
Sale	Rate	MXP	1,697,856	144	1,698,000	$	1,698	586
Valuation	Rate	MXP			358,654		359	192
						$	2,057	778
Sale	Rate	DLS	422,432	142	422,574	$	7,971	7,342
Valuation	Rate	DLS			84,050		1,586	1,919
						$	9,557	9,261
						$	**11,614**	**10,039**

(Millions of Mexican pesos, unless specified otherwise)

At December 31, 2019 and 2018, the results of valuation of fair value hedge securities were as follows:

		2019		2018	
		Derivative	**Primary position**	**Derivative**	**Primary position**
Swaps	$	1,053	(1,068)	(1,131)	1,136

Options for trading purposes

			Thousand		**Amount Mexican pesos**	
	Underlying	**Currency source**	**Currency source**		**2019**	**2018**
Purchase	Rate	MXP	8,005	$	8	8
Purchase	Rate	DLS	634		12	14
Valuation	Rate				(19)	(15)
				$	**1**	**7**
Sale	Rate	MXP	9,395	$	9	9
Sale	Rate	DLS	721		14	14
Valuation	Rate				(22)	(16)
				$	**1**	**7**

At December 31, 2018, the Institution granted loans with protected rates, whose principal amount of USD 1 million and fair value of USD 6 thousand is recorded in the memorandum accounts within “Other recording accounts”. At December 31, 2019, the Institution does not have loans with protected rate.

Guarantees granted and received in operations in unrecognized markets:

At December 31, 2019 and 2018, the guarantees granted for operations carried out in unrecognized derivatives markets are presented under the item of “Other accounts receivable, net” for $ 4,408 and $7,054, respectively.

Additionally, at December 31, 2019 and 2018, cash guarantees for $272 and $17 have been received, respectively, which are recorded under the item of “Other accounts payable, net”.

(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 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, Banco de México 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 – first tier
3. Promotion management – second tier
4. First tier credit files management
   Addendum No. 1 and Addendum No. 2
5. Second tier credit files management
   Addendum No. 1

Analysis and Decisions

1. Borrower Evaluation. Credit Analysis – first tier
   - Financial Program matrices first tier
2. Borrower Evaluation. Credit Analysis – second tier
   - Financial Program matrices second tier
3. Borrower Evaluation. Preparation of Legal Report and/or personality report
4. Authorization

Instrumentation and disbursement

1. Contracting – first tier
2. Contracting – second tier
   Addendum No. 1
3. Registration and release of credit lines, authorization of disposal and letters of credit – first tier
4. Registration and release of credit lines, authorization of disposal and letters of credit – second tier
5. Safeguarding of securities documentation – first tier
   Addendum No. 1
6. Safeguarding of securities documentation – second tier

Tracing

1. Portfolio management and control – first tier
2. Portfolio management and control – second tier
3. Supervision and Monitoring of Accredited and Intermediaries
   Addendum No. 1
4. Portfolio rating

Recovery

1. Specialized Collections Function (FEC for its acronym in Spanish)
2. Collections management – first tier
   Addendum No. 1 and Addendum No. 2
3. Collections management – second tier
   Addendum No. 1 and Addendum No. 2
4. Application of allowance for loan losses

Support Processes

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

Other Loan Programs

1. Former employee portfolio management
   Addendum No. 1
2. Financing of foreign trade inventories
   Addendum No. 1 and Addendum No. 2

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 contracting 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 pose 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 2019 were determined considering the 13.68% capital ratio and core capital of $31,491.6 as of June 2019. Regulatory limits are 30% of the core capital ($9,447.4, equivalent to 500.8 million of USD at the exchange rate of $18.8642 pesos/dollar as of December 31, 2019) per private sector borrower and 100% of the core capital ($31,491.6, equivalent to 1,669.3 million of USD) 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 $8,030.3 (equivalent to $425.7 million of dollars) per borrower of the private sector and $26,767.8 (equivalent to $1,419.0 million of 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 of dollars, equivalent of $4,338.8, which comprises 13.8% 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.

(a) Loan portfolio-

At December 31, 2019 and 2018, the loan portfolio was comprised as follows:

		2019			**2018**	
	Current	**Past due**	**Total**	**Current**	**Past due**	**Total**
Portfolio in foreign currency, valued in millions of Mexican pesos:						
Commercial loans	$ 114,115	48	114,163	109,544	3,850	113,394
Loans to financial entities	7,123	960	8,083	10,998	-	10,998
Loans to government entities	5,352	-	5,352	5,018	-	5,018
Subtotal	126,590	1,008	127,598	125,560	3,850	129,410
Portfolio in Mexican pesos:						
Commercial loans	78,515	1,196	79,711	77,021	1,122	78,143
Loans to financial entities	22,089	120	22,209	22,125	120	22,245
Consumer loans	33	3	36	20	1	21
Mortgage loans	100	5	105	81	4	85
Subtotal	100,737	1,324	102,061	99,247	1,247	100,494
Total	**227,327**	**2,332**	**229,659**	**224,807**	**5,097**	**229,904**

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Breakdown of the portfolio per economic sector as of December 31, 2019 and 2018:

		2019		2018	
Sector per economic activity		**Amount**	**%**	**Amount**	**%**
Tourism	$	33,710	14.68	32,334	14.06
Electricity, gas and water		26,865	11.70	25,098	10.92
Steel products, machinery and equipment		23,659	10.30	23,773	10.34
Real property and lease services		23,122	10.07	28,166	12.25
Transportation and communication		22,293	9.71	20,845	9.07
Commerce		14,756	6.43	15,061	6.55
Food, beverages and tobacco		11,358	4.95	8,221	3.58
Chemical substances and plastic or rubber Ítems		8,116	3.53	14,556	6.33
Non-metal mineral products		6,678	2.91	5,849	2.54
Professional, personal and technical services		5,517	2.40	3,869	1.68
Metal industry		4,245	1.85	4,455	1.94
Oil and natural gas extraction		3,814	1.66	-	-
Construction industry		3,560	1.55	3,769	1.64
Paper, print shops and publishing houses		2,774	1.21	2,649	1.15
Textiles, clothing and leather industry		836	0.36	600	0.26
Lumber and Wood products industry		698	0.30	745	0.32
Mining		510	0.22	846	0.37
Unclassified services		468	0.20	1,215	0.53
Agricultural industry		30	0.01	60	0.03
Individuals		141	0.06	106	0.05
Adjustment to the book value of the hedged ítem		865	0.38	(574)	(0.25)
Private sector	$	194,015	84.48	191,643	83.36
Government sector		5,352	2.33	5,018	2.18
Financial sector		30,292	13.19	33,243	14.46
Total	**$**	**229,659**	**100.00**	**229,904**	**100.00**

(Millions of Mexican pesos)

Past due portfolio as of December 31, 2019 and 2018:

	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

	Days old as of December 31, 2018				
Type of portfolio:	1 to 180 days	181 to 365 days	1 to 2 years	Over 2 years	Total
Commercial loans	$ 311	2,773	1,440	448	$ 4,972
Loans to financial entities	120	-	-	-	120
Consumer loans	-	-	-	1	1
Mortgage loans	-	-	1	3	4
	$ 431	2,773	1,441	452	$ 5,097

Main movements of the past due portfolio for the years ended on December 31, 2019 and 2018-

	2019	2018
Opening balance of past due portfolio	$ 5,097	1,942
Difference per exchange rate from opening balance	(154)	163
Payments	(35)	(234)
Write-offs	(4,013)	(39)
Transfers to current portfolio	(138)	(977)
Cancellations due to restructurings	(572)	(209)
Loan openings due to restructurings	584	436
Transfers to past due portfolio	1,546	3,999
Capitalization	17	16
Balance of past due portfolio	**$ 2,332**	**5,097**

At December 31, 2019 and 2018, the past due portfolio balance is comprised of eleven former employees and eight companies in each year, respectively, six companies (seven in 2018) are involved in a judicial or extrajudicial collection process and two under sustained payment in 2019 and one in 2018.

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Restructured and renewed loans-

	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 restructure[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

	2018				
	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 restructure[5]
Commercial loans	$ 1,001	$ 32	$ 28,197	$ 225	$ 5,944
Consumer loans	-	-	-	-	1
Mortgage loans	2	-	-	-	15
	$ 1,003	$ 32	$ 28,197	$ 225	$ 5,960

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 "Credit portfolio" of Exhibit 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 "Credit portfolio" of Exhibit 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 Exhibit 33 of the Provisions were not applied.

On October 31, 2013 a debt recognition, interest capitalization and reorganization agreement were formalized with a foreign financial entity, whereby it was agreed to recover a total of USD146.3 million 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 At December 31, 2019 and 2018, the equity balance amounts to USD 88 million and USD 93 millions, respectively.

Additional guarantees and concessions issued for restructured loans-

During the 2019 fiscal year, no additional guarantees or concession were granted to the restructured loans. As for the 2018 fiscal year, additional guarantees were granted to the restructured loans for $17.

(Millions of Mexican pesos)

Interests and commissions-

Type of loan		2019 Interests accrued	2019 Commissions accrued	2019 Total	2018 Interests accrued	2018 Commissions accrued	2018 Total
Commercial loans	$	14,144	214	14,358	12,367	211	12,578
Loans to financial entities		2,259	-	2,259	2,184	-	2,184
Loans to government entities		265	-	265	270	4	274
Consumer loans		2	-	2	1	-	1
Mortgage loans		8	-	8	5	-	5
Total	**$**	**16,678**	**214**	**16,892**	**14,827**	**215**	**15,042**

Commissions on initial granting of loans-

Commissions collected upon initial granting of loans not yet deferred at December 31, 2019 and 2018 amounted to $846 and $733, respectively are offset 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, 2019 and 2018 was 5.17 and 4.82 years, respectively.

Rediscounts-

Rediscounts at December 31, 2019 and 2018 amounted to $29,307 and $33,376, 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:

		2019 Current	2019 Past due	2019 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**

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		2018		
		Current	**Past due**	**Total**
Non-troubled portfolio	$	254,900	-	254,900
Troubled portfolio		1,190	4,999	6,189
Past due interests		-	93	93
Total rated portfolio	**$**	**256,090**	**5,092**	**261,182**

A) Valued at the exchange rates at December 31, 2019 and December 31, 2018.
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, 2019, it includes guarantees and credit letters granted in the amount of $21,943, guarantees issued for $1,196, factoring of $612 and others for ($1,332). As of December 31, 2018, it includes guarantees and credit letters granted in the amount of $28,882, guarantees issued for $1,286, factoring of $670 and others for $546.

(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, 2019-

Rating		**Commercial**	**Government entities**	**Financial intermediaries**	**Guarantees and factoring**	**Mortgage portfolio**	**Consumer loan portfolio**	**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 at December 31, 2019-

Rating		Commercial	Government entities	Financial intermediaries	Guarantees and factoring	Mortgage portfolio	Consumer loan portfolio	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**

Total of rated portfolio as per type of loan at December 31, 2018-

Rating		Commercial	Government entities	Financial intermediaries	Guarantees and factoring	Mortgage portfolio	Consumer loan portfolio	Total
A-1 Minimum	$	161,472	4,972	22,446	29,147	70	-	218,107
A-2 Minimum		17,783	-	8,181	1,666	5	-	27,635
B-1 Low		3,220	-	2,494	-	-	-	5,714
B-2 Low		125	-	444	-	1	17	587
B-3 Low		2,690	-	-	25	3	1	2,719
C-1 Medium		127	-	39	-	1	-	167
C-2 Medium		69	-	-	-	3	1	73
D High		504	-	-	-	-	-	504
E Irrecoverable		5,565	-	120	-	2	2	5,689
Subtotal		191,555	4,972	33,724	30,838	85	21	261,195
Past due interests		93	-	-	-	-	-	93
Total	**$**	**191,648**	**4,972**	**33,724**	**30,838**	**85**	**21**	**261,288**

Does not include the rating exempt portfolio of $46.

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Allowance required per risk group at December 31, 2018-

Rating		Commercial	Government entities	Financial intermediaries	Guarantees and factoring	Mortgage portfolio	Consumer loan portfolio	Total
A-1 Minimum	$	812	25	134	122	-	-	1,093
A-2 Minimum		195	-	102	16	-	-	313
B-1 Low		53	-	44	-	-	-	97
B-2 Low		3	-	10	-	-	1	14
B-3 Low		83	-	-	1	-	-	84
C-1 Medium		9	-	2	-	-	-	11
C-2 Medium		10	-	-	-	-	-	10
D High		173	-	-	-	-	-	173
E Irrecoverable		4,378	-	93	-	1	3	4,475
Subtotal		5,716	25	385	139	1	4	6,270
Past due interests		93	-	-	-	-	-	93
Total	**$**	**5,809**	**25**	**385**	**139**	**1**	**4**	**6,363**

This is an analysis of the movements of the preventive estimate for the years ended on December 31, 2019 and 2018.

	2019	2018
Balance at the beginning of the year	6,363	3,826
Increases / (release), net	2,444	2,544
Applications	(4,013)	(39)
Write off	(7)	(3)
Exchange effect	(194)	35
Final balance	**4,593**	**6,363**

For the years ended December 31, 2019 and 2018, the allowance for loan losses constituted by the Institution includes charges of $1,899 and $2,531 recognized in results of the year, respectively. As of December 31, 2019 and 2018, $545 and $13 were received from a counter-guarantee fund to constitute the reserve respectively, of which $3 was applied in the 2018 fiscal year.

The allowance from past due portfolio was $24 and $93, for the years ended December 31, 2019 and 2018, respectively.

In rating the loan portfolio at December 31, 2019 and 2018, the Institution applied the methodologies set forth in the General Provisions Applicable to Credit Institutions for each year.

In 2019, loan reserves comprised 2% of the total portfolio and covered 1.97 times the past-due loan portfolio; in 2018, those factors were 2.8% and 1.25 times, respectively.

Criterion B-6 “Loan portfolio” of Exhibit 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 2019, the Institution applied the balance of 3 loans against the allowance for loan losses for a total for an amount of $4,013. In 2018, the Institution applied the balance of 11 loans against the loan loss reserve for an amount of $39.

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 dollars and in Mexican pesos that are managed in memorandum accounts, are as follow:

	2019		2018	
	DLS Thousand	**Mexican pesos**	**DLS Thousand**	**Mexican pesos**
Past due capital				
Companies	450	$ 1,034	265	$ 686
Former employees	-	18	-	21
Total capital	**450**	**$ 1,052**	**265**	**$ 707**
Past due interest				
Companies	8	$ 31	4	$ 16
Total interest	**8**	**$ 31**	**4**	**$ 16**

As of December 31, 2019 and 2018, the amount of the recoveries of this loan portfolio eliminated from the asset was $93 and $463, 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 $33 and $46 in 2019 and 2018, respectively.

Interest income recognized in loans at capitalization time-

Interest income recognized in the moment of capitalization in 2019 and 2018 amounts to $138 and $55, respectively.

(Millions of Mexican pesos)

Credit lines-

The amount of opening credit lines recognized in memorandum accounts as of December 31, 2019 and 2018 shown below:

Year	Mexican pesos	Millions US Dollars	Millions Euros
2019	16,507	3,865	42
2018	16,313	4,440	74

(10) Other accounts receivable, net-

At December 31, 2019 and 2018, the other accounts receivable are as follows:

	2019	2018
Debtors for collateral given in cash	$ 4,408	$ 7,054
Loans granted to Institution´s personnel	2,062	2,419
Debtors for settlement of currency purchase and sale operations (note 17)	194	206
Sundry debtors	52	44
Debtors for commissions on current operations	11	13
Debtors for settlement of investment operations in securities	11	-
Value added tax	7	7
Taxes recoverable	2	723
Assigned accounts receivable	2	4
Debtors for settlement of repurchase agreements	1	1
	6,750	10,471
Write-off allowance	(20)	(15)
	$ 6,730	**10,456**

At December 31, 2019 and 2018, the Institution has accounts receivable in foreign currency valued at Mexican pesos of $16 and $10, respectively.

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(11) Foreclosed assets-

The integration of these assets at December 31, 2019 and 2018 is as follows:

Concept	Mexican pesos	Million at USD	Valued foreign currency	2019	2018
Movable property	$ 72	-	$ -	72	78
Securities	-	48	910	910	948
Collection rights	-	34	634	634	645
Subtotal	$ 72	82	$ 1,544	1,616	1,671
Real property:					
Farm land	$ 98	-	-	98	98
Urban land	153	-	-	153	153
Single familiy homes	74	-	-	74	78
Apartments	11	-	-	11	9
Industrial Parks	386	-	-	386	413
Commercial establishments	123	-	-	123	123
Other	74	-	-	74	74
Subtotal	919	-	-	919	948
Properties held for sale:					
Properties	28	-	-	28	102
Subtotal	28	-	-	28	102
	1,019	-	1,544	2,563	2,721
Less:					
Allowances	1,019	82	1,544	2,563	2,701
Total	**$ -**	**-**	**-**	**-**	**20***

* Relates to the balance at December 31, 2018, of goods held for sale, with a value of $102 and reserve of $82.

(Millions of Mexican pesos)

Allowance for foreclosed assets -

The allowance of foreclosed assets at December 31, 2019 and 2018 was as follows:

		2019	**2018**
Securities	$	910	948
Movable property		72	78
Collection rights		634	645
Goods held for sale		28	82
Real property		919	948
Total Allowance		**2,563**	**2,701**

The charge to income statements for the allowance was $32 and $135 in 2019 and 2018, respectively.

(12) Property, furniture and equipment, net-

At December 31, 2019 and 2018, this caption is shown as follows:

	Useful life		**2019**	**2018**
Building	90 years	$	569	569
Furniture and equipment	10 years		460	528
Computing equipment	3.3 years		135	135
Transport equipment	4 years		3	3
			1,167	1,235
Less accumulated depreciation			(764)	(820)
Total investments subject to depreciation			403	415
Construction in progress			5	8
Land			81	82
Total investments do not subject to depreciation			86	90
Total		**$**	**489**	**505**

The charge to income statement for depreciation in 2019 and 2018 was $15 and $12, respectively.

(Millions of Mexican pesos)

(13) Permanent investments-

a. The main companies for which the equity method was used, as well as the Institution´s shareholding in those companies, at December 31, 2019 and 2018 are as follow:

Participation (%)

Company	2019	2018	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)	5.39	5.46	Investment fund

b. The amounts used to recognize the equity method at December 31, 2019 2018 are as follow:

Company		Capital stock	(Accumulated losses) retained earnings	Income for the period	Total 2019	Total 2018
CESCEMEX	$	96	(18)	1	79	74
CMIC		366	94	7	467	461
Other		-	-	-	84	70
Total	**$**				**630**	**605**

The net effect of the valuation of the permanent investments as of December 31, 2019 and 2018 is $ 25 and $55, respectively. The effect on results is of $18 and $61 for the years ended on December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the valuation result in permanent investments that went to the stockholders' equity is of $7 and $8, respectively. In 2018, an investment of $2 was made, in 2019 no investments were made.

c. At December 31, 2019 and 2018, the assets, liabilities and main captions of the statement of income of the main associated companies are as follow:

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

(Millions of Mexican pesos)

	2018			
	Total			
	Assets	**Liabilities**	**Income**	**Expenses**
CESCEMEX	$ 373	223	75	74
CMIC	9,169	724	1,514	101

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 $84 and $70 in 2019 and 2018.

(14) Time deposits-

Time deposits at December 31, 2019 and 2018 are as follow:

	2019	**2018**
Notes with interest payable at maturity	$ 96,415	86,899
Fixed term deposits foreign currency	25,777	28,618
Certificates of bank deposits (CEDES)	3,308	-
Deposits for special savings loan	826	1,169
Fixed term MXP deposits	533	755
Net hedging swaps valuation, net	8	(5)
Total	**$ 126,867**	**117,436**

Following are the features with interest payable at maturity in 2019 and 2018:

Issue	**Term**	**Average rate**	**2019**	**2018**
Note	1 to 29 days	7.43%	$ 74,245	73,074
Note	30 to 179 days	7.83%	21,668	13,825
Note	180 to 360 days	7.21%	502	-
Total			**$ 96,415**	**86,899**

(Millions of Mexican pesos)

Following are the features of fixed term deposits in foreign currency for 2019 and 2018.

Term	Rate	Initial amount	Accrued interests	2019	2018
1 to 29 days	From 1.15 to 1.76%	$ 21,420	1	21,421	19,682
30 to 179 days	From 1.72 to 2.00%	1,251	2	1,253	4,181
180 to 360 days	From 1.81 to 2.20%	787	6	793	1,960
Over 360 days	From 1.98 to 3.05%	2,251	59	2,310	2,795
		$ 25,709	**68**	**25,777**	**28,618**

The characteristics of the certificates of bank deposits at December 31, 2019 and 2018 are as follow:

Issue	Term	Rate	2019	2018
CEDES	30 to 179 days	TIIE - 0.14	3,308	-

The characteristics of the fixed term deposits in Mexican pesos at December 31, 2019 and 2018 are as follow:

Issue	Term	Rate	2019	2018
Deposit at sight	2 days	From 7.00 to 7.20%	$ 533	755

At December 31, 2019 and 2018, there are fixed term deposits in favor of related parties for $19 and $119 and interests were paid for $10 and $9, respectively.

(15) Debt instruments issued-

At December 31, 2019 and 2018, this caption is comprised as follows:

	2019	2018
Debt instruments	25,128	25,113
Bank bonds	19,009	19,798
Net hedging swaps valuation	(165)	(2,796)
	$ 43,972	**42,115**

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Following are the features of the debt securitties:

				2019				
Issue 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

				2018				
Issue 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	60	3,060
16/12/2014	03/12/2024	6.54%	6.55%	1,799	35,000,000	3,500	13	3,513
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	5	3,005
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	24	5,144
29/05/2018	23/05/2023	TIIE-0.01	7.87%	1,239	7,400,000	740	3	743
	Allocation discount							(67)
						$		25,113

At December 31, 2019 and 2018, 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:

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

2018						
				Valued in Mexican pesos		
Currency	**Number of bonds**	**Rate**	**Currency source Millions**	**Amount**	**Interest**	**Total**
US Dollar	1 Macrotitle	4.375%	1,000	19,651	181	19,832
Discount as per securities amortization						(34)
						$ 19,798

At December 31, 2019 and 2018, the Institution has placed a Macro Title 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:

USD 600 millions to $Libor_{3m}$ + 233.45 basis point (bp)USD 400 millions to $Libor_{6m}$ + 221.00 bp

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

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

(Millions of Mexican pesos, unless specified otherwise)

(16) Due to bank and other entities-

The balances of Due to bank and other entities at December 31, 2019 and 2018 are as follow:

		2019	2018
Immediate enforceability:			
Operations of call money	$	**2,728**	**2,044**
Short-term:			
Guaranteed credit lines		959	817
Commercial credit lines		19,725	36,236
Implementing agent		12	12
Official bodies		2,830	2,555
Development banking		8,327	5,559
Federal government loans		1,127	118
Interest provision		153	202
		33,133	**45,499**
Long-term:			
Guaranteed credit lines		11,698	7,539
Implementing agent		5,723	4,009
Federal government loans		133	1,279
		17,554	**12,827**
Total	$	**53,415**	**60,370**

At December 31, 2019, the concepts of the loans are integrated as follow:

a. Call money

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	DLS	From 1.45% to 1.50%	145	2,728	3	-	-	$ 2,728

(Millions of Mexican pesos, unless specified otherwise)

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	DLS	From 3.90 to 1.25%	671	958	68	11,698	6	$ 12,656
Foreign banks	Euros	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 banks	MXP	From 7.79 to 8.29%	5,011	5,011	149	-	-	$ 5,011
Foreign banks	DLS	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	DLS	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	DLS	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	DLS	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	DLS	From 1.71 to 1.95%	63	1,127	47	57	1	1,184
				1,127		**133**		**$ 1,260**

At December 31, 2018, this caption is comprised as follows:

a. Call money

2018

				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	DLS	From 2.20 to 2.25%	104	2,044	2	-	-	$ 2,044

(Millions of Mexican pesos, unless specified otherwise)

b. Guaranteed credit lines

2018

				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	DLS	From 1.25 to 3.90%	425	816	64	7,537	7	$ 8,353
Foreign Banks	Euros	2.00	0.13	1	90	2	2	3
				817		**7,539**		**$ 8,356**

c. Commercial credit lines

2018

				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	DLS	From 2.25 to 3.47%	1,213	23,836	161			$ 23,836
Domestic banks	MXP	From 8.03 to 8.48	12,400	12,400	122			12,400
				36,236				**$ 36,236**

d. Implementing agent

2018

				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	DLS	From 3.42 to 3.44%	205	12	135	4,009	13	$ 4,021

e. Official bodies

2018

				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	DLS	From 2.96 to 3.09%	130	2,555	81	-	-	$ 2,555

(Millions of Mexican pesos, unless specified otherwise)

f. Development banking

2018								
				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	DLS	From 2.20 to 2.69%	283	5,559	19	-	-	$ 5,559

g. Federal Government Loans

2018								
				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	7.97	70	-	-	70		$ 70
Domestic Banks	DLS	From 1.95 to 2.35%	68	118	91	1,209	2	1,327
				118		**1,279**		**$ 1,397**

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 at December 31, 2019 and 2018 amount to 943 and 6,798, respectively.

(17) Sundry creditors and other accounts payable-

At December 31, 2019 and 2018, this item is as follows:

		2019	**2018**
Liabilities arising from bank services rendered	$	1,294	1,013
Provisions for exposure to legal and operating risk		887	855
Provisions for sundry obligations		66	93
Other sundry creditors		220	146
Employee benefits		2,101	-
Balance of currencies		153	72
Total	**$**	**4,721**	**2,179**

(Millions of Mexican pesos)

Below is the analysis of the movements of provisions due to exposure to legal and operating risk for the years ended at December 31, 2019 and 2018:

		2019	**2018**
Balances at beginning of year	$	855	822
Increases/1		275	90
Cancellations		(209)	(58)
Exchange effects		(34)	1
Closing balances	**$**	**887**	**855**

1/ As noted in note 23 d), 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 2019 and 2018, 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.

Contributions to the Defined Benefit Pension Fund were for $514 and $575, respectively. $63 and $61 were contributed to the PEA fund in 2019 and 2018, 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 amount of contributions made amounts to 21 as of December 31, 2019 and 2018. At December 31, 2019 and 2018, the Defined Contribution Trust amounts to $ 215 and $ 243, respectively.

At December 31, 2019, the Institution had the next pages balances resulting from the actuarial valuation performed by an independent expert:

December 31, 2019

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

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Financial position

		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and interest cost of loans	Total
Defined benefit obligation (DBO)		(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 for defined benefit (NLDB)/NADB		**(1,299)**	**(7)**	**(1,783)**	**(358)**	**(3,447)**
Accumulated actuarial losses pending to be recognized in Other Comprehensive Income (OCI) (stockholders´ equity)		719	3	461	166	1,349
(Earnings) / Losses recognized in OCI (Stockholders´ equity) pending to be recycled in income of the year		580	4	1,325	192	2,101
Accumulated actuarial losses pending to be recognized in OCI and in the statement of income	**$**	**1,299**	**7**	**1,786**	**358**	**3,450**
Reserve balance at the 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 end of year		**-**	**-**	**(3)**	**-**	**(3)**

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		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and interest cost of loans	Total
Net liabilities (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)
Remeasurement recycling recognized in the OCI		4	-	(68)	6	(58)
Net liabilities (assets) remeasurements for defined benefits recognized in the OCI		951	3	1,294	405	2,653
Net liability (assets) for defined benefits NLDB/(NADB))		**1,299**	**7**	**1,783**	**358**	**3,447**

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.

At December 31, 2019, re-measurements of liabilities (assets) from defined benefits, net, determined during the actuarial valuation are as follow.

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

		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and interest cost of loans	Total
Remeasurement pending to be recognized in OCI Actuarial (earnings)/losses in obligations 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 plan assets at the beginning of the fiscal year		220	2	351	62	635
Recycling		(37)	-	(59)	(11)	(107)
(Earnings)/losses in the return of plan assets at the end of the fiscal year		183	2	292	51	528
Total remeasurements pending to be recognized in the OCI	$	719	3	461	166	1,349

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		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and interest cost of loans	Total
Remeasurements recognized in OCI						
Actuarial (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 at the end of the year		558	4	1,347	179	2,088
(Earnings)/losses in the return of plan assets at the beginning of the year		318	1	175	176	670
Recycling		(37)	-	(15)	(22)	(74)
(Earnings)/losses in the return of plan assets of the year		(259)	(1)	(182)	(141)	(583)
(Earnings)/losses in the return of 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 plan assets at the end of the year		205	2	270	64	541
Total remeasurements	**$**	**1,299**	**7**	**1,786**	**358**	**3,450**

The Institution has accumulated actuarial losses pending to be recognized as of December 31, 2019, in OCI for $1,349 which will be recognized from as of to 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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At 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 interest 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%

December 31, 2018

Net cost of the period		**Retirement pensions**	**Seniority premiums**	**Other post-employment benefits**	**PEA and interest cost of loans**	**Total**
Service cost	$	101	1	67	51	220
Net interest		49	1	66	2	118
Remeasurement recycling		125	1	164	8	298
	$	**275**	**3**	**297**	**61**	**636**

Financial position

		Retirement pensions	**Seniority premiums**	**Other post-employment benefits**	**PEA and interest cost of loans**	**Total**
Obligation as per defined benefits (ODB)		(7,972)	(16)	(5,500)	(2,903)	(16,391)
Fair value of plan assets		7,480	11	4,848	2,922	15,261
Net (liability) assets as per defined benefits (NLDB)/NADB)		**(492)**	**(5)**	**(652)**	**19**	**(1,130)**
Accumulated actuarial losses pending to be recognized in the OCI (Stockholders´ equity)		867	3	556	201	1,627
Recognized (earnings)/losses in the OCI (Stockholders´ equity) pending to be recycled in results of the year		(375)	2	99	(220)	(494)
Accumulated actuarial losses pending to be recognized in the OCI and in the statement of income	**$**	**492**	**5**	**655**	**(19)**	**1,133**

(Millions of Mexican pesos)

		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and interest cost of loans	Total
Reserve balance at the beginning of year	$	-	-	(3)	-	(3)
Net cost of the period		275	3	297	61	636
Contributions to the fund		(275)	(3)	(297)	(61)	(636)
Reserve balance at end of year	**$**	-	-	(3)	-	(3)

Financial position

		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and interest cost of loans	Total
Net liability (assets) as per defined benefits at the beginning of period	$	736	7	977	47	1,767
Net cost of the period		275	3	297	61	636
Contributions made		(275)	(3)	(297)	(61)	(636)
Payments charged to the reserve		-	-	-	-	-
Remeasurement recycling pending to be recognized in the OCI		(176)	(1)	(112)	(40)	(329)
Recognized remeasurement recycling in the OCI		51	-	(52)	33	32
Net remeasurements of liability (assets) as per defined benefits in the OCI		(119)	(1)	(161)	(59)	(340)
Net liability (assets) for defined benefits NLDB/(NADB)		**492**	**5**	**652**	**(19)**	**1,130**

As of December 31, 2018, the remeasurement of liability (assets) for Net Defined Benefits in the actuarial valuation is detailed below.

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Reconciliation of the gains and losses of the plan as of December 31, 2018

		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and interest cost of loans	Total
Remeasurements pending to be recognized in the OCI (earnings)/actuarial losses at the beginning of year	$	779	1	246	167	1,193
Recycling		(132)	-	(41)	(28)	(201)
Actuarial (earnings)/losses in obligations at end of year		647	1	205	139	992
(Earnings)/losses in the return of the plan assets at the beginning of year		264	3	422	74	763
Recycling		(44)	(1)	(71)	(12)	(128)
(Earnings)/losses in the return of the plan assets at end of year		220	2	351	62	635
Total remeasurements pending to be recognized in the OCI	$	867	3	556	201	1,627
Remeasurements recognized in the OCI						
(Earnings)/losses in obligations at the beginning of year		(282)	3	337	(185)	(127)
Recycling		47	-	(56)	31	22
Actuarial (earnings)/losses in obligations of the year		(458)	(2)	(357)	(242)	(1,059)
Actuarial (earnings)/losses in obligations of the year		(693)	1	(76)	(396)	(1,164)
(Earnings)/losses in the return of the plan assets at the beginning of year		(25)	-	(25)	(9)	(59)
Recycling		4	-	4	2	10
(Earnings)/losses in the return of the plan assets of the year		339	1	196	183	719
(Earnings)/losses in the return of the plan assets at end of year		318	1	175	176	670
Recommendations recognized in other comprehensive income		(375)	2	99	(220)	(494)
Total remeasurements						
Actuarial (earnings)/losses in obligations at end of year		(46)	2	129	(257)	(172)
(Earnings)/losses in the return of the plan assets at end of year		538	3	526	238	1,305
Total remeasurements	$	**492**	**5**	**655**	**(19)**	**1,133**

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The Institution has accumulated actuarial losses pending to be recognized as of December 31, 2018, in the OCI for $1,133 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.

	Retirement pensions	**Seniority premiums**	**Other post-employment benefits**	**PEA and interest cost of loans**
Average remaining working life (ARWL)	5.87 years	6.61 years 20.91 years	5.87 years 24.47 years	5.87 years
Actuarial assumptions:				
Estimated discount rate	9.57%	9.57%	9.57%	9.57%
Increase rate of officer wages	3.65%	3.65%	3.65%	3.65%
Increase rate of employee wages	4.15%	4.15%	4.15%	4.15%
Increase rate of medical expenses	N/A	N/A	7.00%	N/A
Estimated yield rate	9.57%	9.57%	9.57%	9.57%

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, 2019 and 2018 as follow:

		2019	2018
Cash and cash equivalents	$	2,163	2,106
Government bonds		6,655	7,328
Quoted bank securities		1,560	1,302
Quoted corporate debt securities		1,382	-
Quoted shares		720	661
National variable income		687	614
International variable income		357	328
	$	**13,524**	**12,339**

Credit risk: The possible loss caused by default of counterparties represents 0.08% and 0.11%, with respect to the total financial instruments held as of December 31, 2019 and 2018, respectively.

	2019			**2018**		
Type of instrument	**Position**	**Credit risk***	**CR %**	**Position**	**Credit risk***	**CR %**
Variable Income	1,764	0.00	0.00%	1,603	0.00	0.00%
Fixed Rate	3,448	6.41	0.19%	2,840	8.68	0.31%
Actual Rate	5,350	1.20	0.02%	5,162	4.40	0.09%
Reviewable Rate	2,962	3.48	0.12%	2,734	0.69	0.03%
Total	**13,524**	**11.09**	**0.08%**	**12,339**	**13.80**	**0.11%**

* 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 0.38% of the total financial instruments as of the end of December 2019 and 2018.

	2019			**2018**		
Type of instrument	**Position (a)**	**Liquidity Risk (LR) (b)**	**LR % (b/a)**	**Position (a)**	**Liquidity Risk (LR) (b)**	**LR % (b/a)**
Variable Income	1,764	4.7	0.27%	1,603	8.2	0.51%
Fixed Rate	3,448	10.3	0.30%	2,840	11.4	0.40%
Actual Rate	5,350	36.2	0.68%	5,162	27.3	0.53%
Reviewable Rate	2,962	0.3	0.01%	2,734	0.2	0.01%
Total	**13,524**	**51.5**	**0.38%**	**12,339**	**47.2**	**0.38%**

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Market Risk: The Value at Risk (VaR) corresponds to 0.25% and 0.36%, with respect to the total financial instruments held as of December 31, 2019 and 2018, respectively, percentages that fall within the authorized limit of 1.40%.

Type of instrument	2019 Position	2019 VaR	2019 VaR*%	2019 Limit	2018 Position	2018 VaR	2018 VaR*%	2018 Limit
Variable Income	1,764	3.2	0.18%	1.40%	1,603	4.2	0.26%	1.40%
Fixed Rate	3,448	20.2	0.59%	1.40%	2,840	10.9	0.38%	1.40%
Actual Rate	5,350	16.2	0.30%	1.40%	5,162	29.8	0.58%	1.40%
Reviewable Rate	2,962	0.0	0.00%	1.40%	2,734	0.0	0.00%	1.40%
Total	**13,524**	**33.2**	**0.25%**	**1.40%**	**12,339**	**44.9**	**0.36%**	**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, 2019 and 2018 as follow:

		2019	2018
Cash and cash equivalents	$	945	652
Government bonds		2,106	2,212
Quoted corporate debt securities		110	58
	$	**3,161**	**2,922**

Credit Risk: The possible loss caused by counterparty default recorded 0.09% and 0.01% at the end of December 2019 and 2018, respectively.

Type of instrument	2019 Position	2019 Credit Risk*	2019 CR %	2018 Position	2018 Credit Risk*	2018 CR %
Fixed Rate	947	0.08	0.01%	871	0.12	0.01%
Actual Rate	916	0.00	0.00%	842	0.00	0.00%
Reviewable Rate	1,298	2.90	0.22%	1,209	0.15	0.01%
Total	**3,161**	**3.00**	**0.09%**	**2,922**	**0.30**	**0.01%**

* 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 0.32% and 0.30% of the portfolio position at the end of December 2019 and 2018, respectively.

	2019			2018		
Type of instrument	**Position (a)**	**Liquidity Risk (LR) (b)**	**LR % (b/a)**	**Position (a)**	**Liquidity Risk (LR) (b)**	**LR % (b/a)**
Fixed Rate	947	1.97	0.21%	871	2.76	0.32%
Actual Rate	916	7.87	0.86%	842	5.64	0.67%
Reviewable Rate	1,298	0.22	0.02%	1,209	0.31	0.03%
Total	**3,161**	**10.05**	**0.32%**	**2,922**	**8.71**	**0.30%**

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

	2019				2018			
Type of instrument	**Position**	**VaR**	**VaR*%**	**Limit**	**Position**	**VaR**	**VaR*%**	**Limit**
Fixed Rate	947	3.8	0.40%	0.70%	871	4.7	0.54%	1.40%
Actual Rate	916	5.8	0.60%	0.70%	842	7.0	0.84%	1.40%
Reviewable Rate	1,298	0.0	0.00%	0.70%	1,209	0.1	0.01%	1.40%
Total	**3,161**	**9.6**	**0.30%**	**0.70%**	**2,922**	**11.8**	**0.40%**	**1.40%**

*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 30% rate for 2014 and thereafter.

In the income of the period (expense) income:		**2019**	**2018**
Current IT	$	(7)	(532)
Deferred IT		313	695
Total IT in the statement of income	**$**	**306**	**163**

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

The tax expense (benefit) of $306 and $163 attributable to the loss before tax on earnings of $1,437 and $116 in 2019 and 2018 respectively, was different from the one resulting of applying the IT rate of 30% to such loss, as a result of the following captions:

		2019	2018
Expected expense (30% of the loss before tax on earnings)	$	(426)	(36)
Increase (reduction) resulting from:			
Tax effect of inflation, net		(216)	(389)
Non-deductible expenses		11	47
Contributions to Fidapex		48	105
Exchange fluctuation of preventive estimation for credit risks		39	(6)
Non-deductible employee benefits		81	37
Change in the reserve of assets valuation as per deferred taxes		274	3
Others, net		(117)	76
Income tax (benefit) expense	**$**	**(306)**	**(163)**

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 tax effect of temporary differences that give rise to significant portions of the deferred tax assets and liabilities, at December 31, 2019 and 2018 are detailed below:

		2019	2018
Deferred assets			
Allowance for credit risks	$	2,658	1,988
Collected fees		258	230
Estimation of foreclosed assets and others		10	16
Tax losses pending to be amortized		138	-
Valuation of available for sale securities		-	1
		3,064	2,235
Deferred liabilities			
Legal and deferred ESPS	$	(226)	(137)
Investment valuation in securities and derivatives		(187)	(19)
Paid fees		(3)	(4)
Property, furniture and equipment		(83)	(95)
		(499)	(255)
Valuation reserve of deferred assets		(617)	(343)
Deferred assets, net	**$**	**1,948**	**1,637**

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The allowance valuation for deferred asset as of January 1, 2019 and 2018 was $343 and $340, respectively. The net change in the allowance for valuation for the years ended December 31, 2019 and 2018 was an increase of $274 and $3 respectively and are related to estimations for credit risks for which a recovery is not expected since they correspond to accredited with A-1 rating. 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 tax planning strategies.

The accounting – tax reconciliation for the years ended December 31, 2019 and 2018 is shown below:

		2019		2018	
		Institution	Subsidiary Diesa	Institution	Subsidiary Diesa
Income before tax on earnings	$	(1,442)	5	(118)	2
Increase (reduction) resulting from:					
Tax effect of inflation, net		(721)	-	(1,298)	-
Non-deductible expenses		35	4	152	5
Contributions to Fidapex		160	-	350	-
Non-deductible employee benefits		272	-	125	-
Allowance for credit risks, net of write-offs		1,942	-	2,554	-
Valuation of investment securities and derivatives		(344)	-	61	-
Prepaid collections, net		113	-	121	-
Legal and deferred ESPS		(115)	-	(151)	-
Other, net		(360)	14	(30)	-
IT base	$	(460)	23	1,766	7
IT rate		30%	30%	30%	30%
Current income tax		-	7	530	2

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

(Millions of Mexican pesos)

Legal and deferred ESPS

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

		2019	2018
Income of the period:			
Legal ESPS	$	-	182
Deferred ESPS		(115)	(257)
	$	**(115)**	**(75)**

The ESPS effects of temporary differences that give rise to significant portions of the deferred assets and liabilities of deferred ESPS, at December 31, 2019 and 2018 are detailed below:

		2019	2018
Deferred assets			
Allowance for credit risks	$	886	663
Collected fees		86	77
Estimation of foreclosed assets and others		3	5
Other		46	14
		1,021	759
Deferred liabilities			
Valuation of investment securities and derivatives	$	(62)	(6)
Paid fees		(1)	(1)
Property, furniture and equipment		(1)	(1)
		(64)	(8)
Valuation reserve of deferred assets		(206)	(114)
Deferred assets, net	**$**	**751**	**637**

The valuation reserve of deferred assets at January 1, 2019 and 2018 was $114 and $112, respectively. The net change in the valuation reserve for the years ended December 31, 2019 and 2018 was an increase of $92 and $2, 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 peso/DLS exchange rate.

(Millions of Mexican pesos)

Following are the features of the subordinated debt outstanding:

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

2018							
					Valued Mexican peso		
Number of securities	**Nominal value**	**Rate**	**Currency**	**Currency source Millions**	**Amount**	**Interest**	**Total**
700,000	1,000 US Dollars	3.80%	US Dollars	700	13,756	202	13,958
Placement discount							(100)
Effect by valuation of the covered position							(260)
					$		**13,598**

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
Yield:	4.032%
Price:	98.959
Term:	10 years
Early payment option or call	Upon 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 capital stock as of December 31, 2019 and 2018 was comprised as follows:

	2019				
	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
Additional Paid – in Capital 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
Remeasurement 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**

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

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	2018				
	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
Additional Paid – in Capital increases formalized by the Institution´s governing body			3,386	-	3,386
Share premium			71	10	81
Capital reserve			(547)	688	141
Prior years´ income			(102)	(1,161)	(1,263)
Result from valuation of available for sale securities			2	-	2
Remeasurement for obligations related to employees´ defined benefits			493	-	493
Result from holding non-monetary assets			-	(25)	(25)
Net income			42	5	47
Total	**270,841,058**	**$**	**30,429**	**467**	**30,896**

b. The capital stock is comprised of nominative CAP´s, with no coupons and is divided into the following series:

Series "A" comprising at all times 66% of the Institution´s capital stock; 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.

(Millions of Mexican pesos)

On September 25, 2017, an agreement was published in the Official Gazette that modified the Integral Regulations of the Institution, which establishes the following: The authorized capital stock is $ 30,000, represented by 198,000,000 and 102,000,000 CAP of Series “A” and “B”, respectively, with a nominal value of 100 pesos per share.

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 and Public Credit to carry out the modification of the amount subscribed and paid-in 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 fiscal year 2018 the capitalization of contributions for future capital increases was made for $ 3,825, leaving the capital stock at $ 28,034 as of December 31, 2018 and 2019.

At December 31, 2019, the capital stock is represented by the Federal Government (99.9877%), Banco de México (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 equity, after subtracting the restated capital stock contributed and restated tax profits, would be subject to 30% IT payable by the Institution. At December 31, 2019 and 2018, the balances of the tax accounts related to the Institution´s stockholders´ equity known as Capital Contributions Account (CUCA) and After-tax Earnings Account (CUFIN for its acronym in Spanish) were as follow:

	2019	**2018**
CUCA	$ 71,865	$ 65,248
CUFIN	$ 12,582	$ 13,148

DIESA had CUCA of $725 and $705 and a negative CUFIN of $355 and $361 in 2019 and 2018 respectively.

d. 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.

In 2018, the Institution requested a capital contribution of up to $ 3,386 to be able to support the growth in its loan portfolio and keep a prudential level of capitalization. The contribution received on December 31, 2018.

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

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The capital ratio (unaudited) at December 31, 2019 and 2018 is as follows:

		2019	**2018**
Basic	$	30,755	29,957
Supplementary		13,205	13,756
Net capital		43,960	43,713
Assets at risk:			
Loans		195,075	197,839
Market		24,251	22,719
Operational		13,624	12,049
		232,950	232,607
Capitalization index $_{\text{Basic}}$ (%)		13.20	12.88
Capitalization index $_{\text{Net}}$ (%)		18.87	18.79

At December 31, 2019 and 2018, the Institution complies with the above requirement by maintaining a capital ratio of 18.87% and 18.79% respectively. Such ratio was calculated based on the rules for determining capitalization requirements published by the SHCP in the Official Gazette of December 28, 2005, and its respective amendments.

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

(22) Segment information-

Following is a breakdown at December 31, 2019 of the information on each of the main segments into which the Institution´s operations are divided:

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**

(Millions of Mexican pesos)

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 expenses		(203)	(7)	(143)	(1,315)	(1,668)
Credit reserves		(525)	41	-	(1,566)	(2,050)
Secondary taxes*		-	-	-	(6,074)	(6,074)
Total	**$**	**4,594**	**957**	**1,848**	**(8,530)**	**(1,131)**

* As indicated in note 23 d), 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 a use 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 refers 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 at December 31, 2019 was $268,619; $5,352 (2.0%) corresponds to public sector loans and $263,267 (98.0%) related to private sector operations, of which $209,591 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.

At 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, while loans made through commercial credit lines comprised 40.2% of the external debt, and external securities outstanding comprised 47.0%.

Following is a breakdown at December 31, 2018 of the information on each of the main segments into which the Institution´s operations are divided.

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a. Assets and liabilities

		Assets		**Liabilities and Capital**		**Income**		**Expenses**	
Business segment		**Amount**	**% Part.**	**Amount**	**Amount**	**Amount**	**% Part.**	**Amount**	**% Part.**
First tier loans	$	190,621	47.3	190,621	-	4,899	59.3	345	(4.1)
Second tier loans		32,814	8.2	32,814	-	891	10.8	(118)	1.4
Financial markets and deposit		164,297	40.8	148,112	16,185	1,804	21.8	(199)	2.4
funding Corporate		14,711	3.7	-	14,711	672	8.1	(8,247)	100.3
Total	**$**	**402,443**	**100**	**371,547**	**30,896**	**8,266**	**100**	**(8,219)**	**100**

b. Results by segment

		First tier	**Second tier**	**Financial markets and Treasury**	**Corporate**	**Total**
Income:						
Financial income	$	4,899	891	1,804	672	8,266
Expenses:						
Operating expenses		(343)	(29)	(199)	(1,661)	(2,232)
Credit allowance		(2,374)	(165)	-	(62)	(2,601)
Secondary taxes*		-	-	-	(3,386)	(3,386)
Total	**$**	**2,182**	**697**	**1,605**	**(4,437)**	**47**

* It refers to the payment made to the Federal Executive through the SHCP due to the authority conferred by article 10 of the current Income Law.

c. Loan portfolio and deposit funding

The loan balances at December 31, 2018 was $275,707; $5,018 (1.8%) corresponds to public sector loans and $270,689 (98.2%) related to private sector operations, of which $237,765 are for first tier loans and guarantees.

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

(Millions of Mexican pesos)

At December 31, 2018, the funding balance arising from the issue of promissory notes payable at maturity and debt securities in Mexican pesos comprised 68.1% of the internal debt, while loans made through commercial credit lines comprised 44.4% and securities outstanding abroad comprised 46.2%.

(23) Income Statement-

a) Financial margin

The financial margin for the years ended on December 31, 2019 and 2018 is analyzed as follows:

Interest income and expenses in 2019 and 2018 are comprised as follow:

		2019		
		Mexican pesos	**Foreign currency measured at Mexican pesos**	**Total**
Financial income:				
Loan portfolio income (note 9)	$	9,749	7,143	16,892
Interests from 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 from 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 DFIs		(1,748)	-	(1,748)
Other items		21	38	59
		18,855	3,809	22,664
Financial margin	**$**	**3,371**	**3,827**	**7,198**

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		2018		
		Mexican pesos	**Foreign currency measured at Mexican pesos**	**Total**
Financial income:				
Loan portfolio income (note 9)	$	8,690	6,352	15,042
Interests from investments in securities and repurchase agreements (notes 6 and 7)		12,626	3	12,629
Interests from cash and cash equivalents		271	472	743
Income from collateral in operations with derivatives		502	-	502
		22,089	6,827	28,916
Less Financial expenses:				
Expenses for repurchase agreements (note 7)		10,924	-	10,924
Interests on time deposits		8,305	698	9,003
Interests on bonds		1,544	842	2,386
Interests on due to bank and other institutions		22	1,427	1,449
Interests on subordinated debentures		-	512	512
Result of valuation of DFIs		(1,917)	-	(1,917)
Other items		17	41	58
		18,895	3,520	22,415
Financial margin	**$**	**3,194**	**3,307**	**6,501**

b) Commissions and Fees Income-

		2019	**2018**
Loan operations	$	507	576
Collateral guarantees		238	258
Letters of credit		51	37
Trust		33	34
Appraisals		6	4
Other commissions and fees collected		2	1
	$	**837**	**910**

(Millions of Mexican pesos)

c) Intermediation result

		2019	2018
Result for valuation of bonds	$	96	55
Result from purchase/sale of securities		135	83
Result from purchase/sale of currencies		(17)	(18)
Total	**$**	**214**	**120**

d) Other operating expenses, net

		2019	2018
Amounts recovered		85	78
Cancellation of allowance for foreclosed assets		75	49
Interests collected from loans made to employees		91	103
Gain on sale of foreclosed assets		12	12
Write-off for cancellation of foreclosed assets (note 11)		(32)	(135)
Risk management allowance (Operating and Legal) 1/		(81)	(70)
Payment of public use taxes to the Federal Government 2/		(6,074)	(3,386)
Other items		32	48
Total	**$**	**(5,892)**	**(3,301)**

1/ The change in methodology for the constitution of legal risk reserves authorized by CAIR on September 10, 2019 (Note 28), had an effect on the results of the Institution of $ 100, 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 Executive Government, acting under the authority conferred by Article 10 of the Federal Income Law in effect, through official letter number 368.-196/2019 through the SHCP on December 30, 2019 established the payment of use by the Institution of $6,074, which was applied to profit before taxes generated by the Institution, paying on December 30, 2019. On December 3, 2018, the Institution paid $3,386 for the same concept, with reference to the official letter 368.-075/2018 dated December 3, 2018.

(24) Guarantees granted-

At December 31, 2019 and 2018, the following guarantees were granted.

(Millions of Mexican pesos)

Purpose		2019	2018
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.	$	256	346
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 $2,500 at a maximum term of 10 years, in order to improve the rating assigned to stock certificates by the rating agencies.		940	940
Guarantees issued in Mexican pesos	**$**	**1,196**	**1,286**

No losses were generated due to non-compliance with the guarantees in the years ended on December 2019 and 2018. The established allowances are detailed in Note 9 b).

(25) 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 28 "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 vendors.

The balances at December 31, 2019 and 2018 are as follow:

		2019	2018
Contingent liabilities:			
Responsibilities for guarantees granted	$	13,680	12,654
Legal risk management		385	979
International factoring (Invoices)		612	669
Subtotal to the following sheet	$	14,677	14,302

(Millions of Mexican pesos)

		2019	2018
Subtotal of previous sheet	$	14,677	14,302
Contingent assets:			
Responsibilities for future contributions		74	77
Casualties recovered (guarantees paid)		467	468
		541	545
	$	**15,218**	**14,847**

In 2019 and 2018, other recording accounts include: counter-guarantee funds of $3,302 and $3,893, and loans eliminated as per criterion B-6 Loan Portfolio, in litigation for $9,725 and $6,016, 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 situation and future results. In memorandum accounts these contingencies are recorded.

(26) Goods in trust or under mandate-

At December 31, 2019 and 2018, the Institution´s fiduciary division has the following trusts:

		2019	2018
Guarantee trusts	$	33,845	28,776
Administration trusts		31,395	31,996
Transfer of ownership trusts		206	213
		65,446	60,985
Mandates		3,784	4,384
Total	**$**	**69,230**	**65,369**

Trust management income was of $33 and $ 34 in 2019 and 2018, respectively.

Administration Trust balances include pension fund trust balances, which at December 31, 2019 and 2018 were as follow.

(Millions of Mexican pesos)

		2019	2018
Defined benefit	$	13,524	12,339
Defined contribution		215	243
Special savings loan and financial cost of loans		3,161	2,922
	$	**16,900**	**15,504**

(27) Assets in custody or under administration-

At December 31, 2019, custody and administration operations were made up as follow:

		Valued currencies			
		DLS	**Euros**	**Mexican Pesos**	**Total**
Operations carried out on behalf of third parties in repurchase agreements	$	-	-	6,004	6,004
Other securities 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**

As of December 31, 2018, the operations of custody and administration are integrated as follow:

		Valued currencies			
		DLS	**Euros**	**Mexican Pesos**	**Total**
Operations carried out on behalf of third parties in repurchase agreements	$	-	-	6,075	6,075
Other securities under administration *		796,644	2,678	345,934	1,145,256
Other securities under administration		5	-	-	5
Special savings loan		-	-	1,168	1,168
	$	**796,649**	**2,678**	**353,177**	**1,152,504**

* Refers to book entries made for securities supporting the Institution´s loan portfolio.

(28) 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.

Results of 2019 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.

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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 2019 were determined considering the capitalization index of 13.68% and the basic capital of $31,491.6 for June 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 2019 was 30% of the Institution´s core capital ($9,447.5, equivalent to DLS 500.8 million at the exchange rate of $18.8642 pesos per dollar on December 31, 2019).

As of December 31, 2019, 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 $11,813.3, representing 41.3% of the regulatory limit (equivalent to DLS 626.2 million at the exchange rate of $18.8642 on December 31, 2019)

Financing to the three major debtors as a whole:

	Millions of DLS	
	December 2019	**December 2018**
Amount of responsibilities	690.00	668.82
Number of times the applicable core capital	0.41	0.48

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, 2019.

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:

	Millions of DLS	
	December 2019	**December 2018**
Amount of responsibilities	7,379.97	9,294.61
Number of times the applicable core capital	4.42	6.72

The amount 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 2019.

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, 2019, 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 1.43%, 0.03%, 0.18% and 94.51%, respectively; as the securities Date Value represented 2.68% and the repurchase position constituted 1.17% of the total; the VaR of such money desk was $5.1, a figure that represented 9.4% of the authorized limit of $54. The annual value at risk average was $5.9. The capital consumption of this portfolio was $659.7, which represented 76% of the authorized limit.

As of December 31, 2019, 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 1.6% and governmental instruments represented 98.4%. As of the end of December, a VaR of $1.4 was recorded for the total position, which represented 27.1% of the authorized limit of $5. The annual value at risk average was $1.3. The capital consumption of this portfolio was $48.9, which represented 62% of the authorized limit.

As of December 31, 2019, the foreign currency investment portfolio did not present any position.

Derivatives- The referenced account of the consolidated 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 2019.

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, 2019, 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, 2019, as for business derivatives, there are closed positions of interest rate options for currencies and a swap portfolio. The VaR amounted to $0.8, equivalent to $39.5% of the authorized limit of $2; the annual VaR average of derivatives was $0.8. The capital consumption of this portfolio was $0.05, which represented 1.1% of the authorized limit.

As of December 31, 2019, 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 dollar deposits. The VaR of swaps amounted to $486.6, 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, 2019, 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 5, as the annual VaR average was $0.7. The capital consumption of this portfolio was $0.02, which represented 0.1% of the authorized limit.

Credit risk

Regarding the referenced account of the consolidated 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.

(Millions of Mexican pesos)

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, 2019, 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 2019

Number of counterparties	Balance	Str. (%)	Accumulated balance	Str. (%)	Expected loss (EL)	EL / Balance (%)	Risk level (average)
1 - 5	18,474	9.7	18,474	9.7	38	0.2	R1
6 - 10	16,254	8.5	34,728	18.2	227	1.4	R3
11 - 15	14,345	7.5	49,072	25.7	48	0.3	R1
16 - 20	11,376	6.0	60,448	31.7	44	0.4	R1
21 - 25	10,079	5.3	70,527	37	123	1.2	R3
26 - 30	8,691	4.5	79,218	41.5	36	0.4	R1
31 - 355	111,736	58.5	190,955	100.0	1,939	1.7	R3
Total	**190,955**	**100.0**			**2,455**	**1.3**	**R3**

As of that date, the annual VaR (without considering the expected recovery from guarantees) of the private sector portfolio was $6,907.1, 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, 2019, which is $30,754.8, the annual VaR represents 22.46%.

The allowance for expected loss due to the private sector portfolio impairment was $2,455.0, 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.

In the meeting held on April 19, 2018, the Board of Directors approved a new strategic capital limit for the credit portfolio and ratified it in 2019, which was in the amount of $18,414.0, which represents 84.03% of the distributable capital ($21,914.0).

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Liquidity risk

The cash flow risk of credit transactions and their respective financing is measured by the risk factor: rate base 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 repricing and maturity structure of productive assets and liabilities of the current general balance sheet as of December 2019, in case of an adverse variation of 25 basis points in each of the risk factors making up the interest rate (rate base and overrate), the net income will reduce by USD 14.3 thousand on average per day (approximately 0.52% of the daily financing 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 2019.

	No. of	Frequency		Severity	
Type of event	**events**	**% Total**	**Losses**	**% Total**	**Unit**
Process execution, delivery and management	97	90	$27	93	$ 0.3
External events	3	3	1	3	0.3
Business incidences and system failures	6	6	1	4	0.2
Customers, products and business practices	1	1	-	-	-
External fraud	1	-	-	-	-
Internal fraud	-	-	-	-	-
Labor relations and workplace safety	-	-	-	-	-
Total	**108**	**100.0**	**$29**	**100**	**0.3**

According to the matrix by type of event, execution, delivery and management concentrates 90% of frequency and 93% of severity.

(Millions of Mexican pesos)

Line of business	No. of events	Frequency % Total	Frequency Losses	Severity % Total	Severity Unit
Commercial banking	53	49	$7	25	$ 0.1
Trading and sales	37	34	20	68	0.5
Payment and settlement	18	17	2	6	0.1
Asset management	-	-	-	-	-
Retail banking	-	-	-	-	-
Corporate finance	-	-	-	-	-
Retail intermediation/retail brokerage transactions	-	-	-	-	-
Agency services	-	-	-	-	-
Total	**108**	**100.0**	**$29**	**100**	**0.3**

As for the matrix by line of business, commercial banking concentrates 49% of the frequency and 25% of the severity while trading and sales account for 34% of frequency and 68% of the severity.

The average exposure value of cumulative events as of December 31, 2019 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 2019 amounts to $10.7, i.e., the tolerance level for controlling event exposure by operational risk. As of the end of 2019, the accumulated consumption was $1.7, so the balance was $9.

Regulatory compliance – The Institution uses the basic indicator method for estimating its operational risk capital requirements in accordance with capitalization rules for credit institutions. At the end of December 2019, the total capital requirement for operational risk totaled $1,090.

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). At December 31, 2019, the indicators show that, overall, 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 23.- Additional information on results, the change in methodology represented an increase of $ 100 in provisions, 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 2019 amounted to $878, comprised as follows: $765 for commercial lawsuits, $55 for administrative lawsuits, $26 for costs and expenses, $18 for labor trials, $13 for civil lawsuits and the caption of account of third parties for $1.

Furthermore, according to such policies, memoranda accounts are used for recording contingencies resulting from commercial, labor, civil and administrative actions which, considering their procedural status, 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.

In relation to the Reputation Risk, the result for the 2019 fiscal year was that Bancomext´s Reputation is moderate, in accordance with the application of the Reputation Risk Management Method (RRMM), authorized by CCRM in the meeting on December 4, 2019.

(29) Recently issued financial reporting standards-

Amendments in the Commission provisions

On November 4, 2019, the CNBV published in the Federal Official Gazette a "Resolution that amends the general Provisions applicable to the credit institutions", published on December 27, 2017, which has the purpose, among others, to incorporate the Financial Reporting Standards issued by the CINIF and referred to in paragraph 3 of Criterion A-2 "Implementation of particular standards" of Exhibit 33 of CUB. This instrument modifies the entry into force as of January 1, 2021.

FRS B-17, Determination of fair 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 impairment 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 issuance date of these consolidated financial statements, the Institution is still in the process of estimating the effects of these FRS on its financial information.

Improvement of 2020 FRS

In December 2019, the Mexican Board of Financial Reporting Standards (CINIF for its acronym in Spanish), issued a document titled "Improvement of 2020 FRS", which includes specific amendments to existing FRS. Improvements to FRSs are detailed below:

Improvement of FRS generating accounting changes- FRS C-16, Impairment of financial instruments receivable; FRS C-19, Financial instruments payable; FRS C-20, Financial instruments receivable, principal and interest; FRS D-3, Employee benefits; FRS D-4, Taxes on earnings; FRS D-5, Leases.

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Improvement of FRS 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 from contracts with customers; FRS D-5, Leases.

FRS in force as from January 1, 2020.- FRS B-11 Disposition of long-lived assets; FRS E-1, Agricultural and livestock activities.

FRS in force as from January 1, 2021.- FRS C-17, Investment properties; FRS C-22, Cryptocurrencies.

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

Eugenio Francisco Domingo
Nájera Solórzano
Chief Executive Officer

José Alberto Gómez Sandoval
Deputy General Director of Administration and Finance

Julia Noemí Rodríguez Kú
Director of Accounting and Budget

Víctor Manuel Jiménez García
Director of Internal Audit