Salles Sainz
Grant Thornton

Consolidated Financial Statements and Independent Auditor's Report

Nacional Financiera S.N.C. Institución de Banca de Desarrollo and Subsidiaries

December 31, 2020 and 2019

Content

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Independent auditor's report

To the Board of Directors of:

Nacional Financiera, S.N.C., Institución de Banca de Desarrollo

Opinion

We have audited the accompanying consolidated financial statements of Nacional Financiera, S.N.C., Institución de Banca de Desarrollo and Subsidiaries (the Institution), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and a summary of the significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements, as at and for the years ended December 31, 2020 and 2019, are prepared, in all material respects, in conformity with the Accounting Criteria for Lending Institutions in Mexico (the Accounting Criteria), issued by the National Banking and Securities Commission (the Banking Commission).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Institution in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audits of the financial statements in Mexico in accordance with the Instituto Mexicano de Contadores Públicos A.C.'s Code of Professional Ethics (IMCP Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA and IMCP Codes. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis paragraph

As discussed in Notes 1 and 2 a) , the accompanying consolidated financial statements are prepared in conformity with the Accounting Criteria applicable to Lending Institutions set out by the Banking Commission and beginning April 2020, with the temporary application of the special accounting criteria issued by the Banking Commission in March 2020, in dealing with the COVID-19 contingency, concerning the consumer lending portfolio, as well as housing and trade portfolios for customers that have been affected by that contingency, which were classified for accounting purposes as performing portfolios in the terms set out in those criteria in the terms and conditions of the guidelines listed in Note 4 a). Our opinion has not been modified in connection with this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole as at and for the year ended December 31, 2020, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter, we describe below how it was addressed in our audit.

Key audit matter	How the matter was addressed in the audit
Derivatives. See Note **9** to the consolidated financial statements	
The determination of fair value of some derivative financial instruments designated as hedges as of December 31, 2020 is carried out, by using valuation techniques that involve significant judgments made by Management, primarily when the use of inputs is required that are obtained from various sources or data not observed on the market and complex valuation models. In addition, the requirements that must be met for recording financial instruments designated as hedges in the accounting records, as well as the documentation and monitoring for testing their effectiveness involve a certain degree of specialization by Management. The documentation of derivatives, their designation, valuation and results determine the accounting treatment and presentation of derivatives and their hedged position, which implies a complex methodological analysis that requires the participation of specialists.	Our audit procedures included, among other things, the review of the documentation of derivative financial instruments in compliance with the requirements set forth in the accounting criteria for the designation, recognition, and treatment of derivatives for trading and hedging purposes. We involved our expert to assess the reasonableness of valuation through selective tests thus assisting us in understanding and evaluating the assumptions, methodologies, and input data used by the Institution for the determination of the fair value of derivative financial instruments, and the appropriate compliance with the criteria and documentation to be considered as such for hedging transactions, hedge effectiveness, and an appropriate disclosure and presentation in the consolidated financial statements, in adherence with accounting criterion B-5.

Loan portfolio and allowance for loan losses. See Note **9** and **10** to the consolidated financial statements	
As discussed in Note 4 a), beginning April 2020, the Institution applied the special accounting criteria issued by the Banking Commission for dealing with the economic impact brought on by the pandemic, relative to the loan portfolio set out in the "General and Specific Guidelines for rescheduling amortizations of the borrowers of the Institution in dealing with the circumstances brought about by the SARS-CoV2 (COVID-19) virus", which set forth the rules for implementing the benefits and support granted in the term provided for by the Commission. The documentation on the agreements with customers for rescheduling credits, verification of meeting requirements for granting the benefit were the basis for carrying out the adjustments to the process and the operating system that enables accounting treatment and presentation, in conformity with special accounting criteria, which meant a significant change in how that portfolio is managed. As discussed in Note 3 j), the allowance for loan losses of the commercial loan portfolio is determined in accordance with the classification rules and portfolio rating set forth by the Banking Commission. That methodology involves significant judgments for the evaluation of the credit rating of debtors, considering the various qualitative and quantitative factors used in the loan portfolio rating process, as well as for evaluating the reliability of the documentation and restatement for the determination of the allowance for loan losses of the loan portfolio.	As part of our audit procedures, we performed an analysis of the processes and controls implemented by Management for identifying, quantifying, and managing the credits to the customers to whom special accounting criteria were applied. In addition, our sample included credits subject to the special accounting criteria for performing substantive audit tests focused on verifying the accounting recognition, in conformity with the accounting criteria issued. As part of our audit procedures applied on a selective basis to evaluate the correct determination by Management of the allowance for loan losses and their effect on income for the year, we evaluated the qualitative and quantitative factors used, as well as the calculation mechanism applied, and their adherence to the current methodologies for each type of loan portfolio, as set forth by the Banking Commission. Moreover, in conformity with the General Provisions applicable to Lending Institutions (the Provisions or the CUBs - for its acronym in Spanish) issued by the Banking Commission, we verified the compliance with the accounting recognition of the additional reserves as at December 31, 2020, which was carried out based on the methodology that was authorized by the Banking Commission. Those reserves considered the possible effects to be generated pursuant to the pandemic caused by the SARS-CoV2 (COVID-19) virus.

Employee benefits. See Note **20** to the consolidated financial statements	
The Institution has established benefit plans and defined contributions for its employees that cover retirement pensions, seniority premiums, legal indemnifications, special loans for savings, and financial cost of credits and other postretirement benefits, which are discussed in Note 20 to the consolidated financial statements. The determination of the liability corresponding to those plans as of December 31, 2020 was performed through complex actuarial calculations that require significant judgments in the selection of the hypotheses used for the determination of the projected net liability of labor obligations. Due to the foregoing and movements of the personnel of the Institution, as well as early retirements and considerable changes in the hypotheses performed in 2020, that liability was considered as a key audit matter.	With the participation of our expert, we evaluated the reasonableness of the assumptions used by Management for determining the projected net liability of labor obligations at retirement and for termination, as well as the calculation mechanism used, the treatment of personnel movements. Moreover, pursuant to selective tests, personnel data (age, seniority, salary, etc.) were verified that were included as the base for the actuarial calculation.

Income taxes and Employee statutory profit sharing, current and deferred. See Note **21** to the consolidated financial statements	
The determination of income taxes and employee statutory profit sharing, current and deferred, is complex, due to the interpretation of currently enacted tax legislation. It further requires significant judgments, fundamentally on the valuation of deferred income taxes assets and employee statutory profit sharing to evaluate present and future factors that allow for the best estimate on the realization of those assets.	The audit procedures applied to the calculations made by Management for the recognition of income taxes and employee statutory profit sharing, current and deferred included selective tests of the inputs used and the nature of the items incorporated into those calculations, considering currently enacted tax legislation. With the participation of our tax specialist, we evaluated the reasonableness of the relevant tax assumptions, including the reversal period of temporary items, the projections of future taxable income determined by Management, which support the probability that income taxes assets will be recovered.

Management's responsibilities and of those responsible for the Institution's governance with respect to the consolidated financial statements

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with the Accounting Criteria applicable to Lending Institutions issued by the Banking Commission and for the internal control deemed necessary by Management to permit the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

In the preparation of the consolidated financial statements, Management is responsible for evaluating the Institution's ability to continue as a going concern and disclosing, if applicable, those matters relative to the going concern and using the accounting postulate for a going concern, unless Management has the intent to liquidate the Institution or suspend its operations, or there is no other more realistic alternative.

Those charged with governance of the Institution are responsible for overseeing the process and issue of its financial reporting.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements of the Institution as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit in accordance with ISAs, we apply our professional judgment and maintain an attitude of professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to continue as a going concern.

- Obtain sufficient appropriate audit evidence regarding the financial information of the subsidiaries or business activities within the Institution to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for the auditor's opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance of the Institution, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report.

SALLES, SAINZ - GRANT THORNTON, S.C.

C.P.C. Nancy Velasco Contreras

Mexico City, Mexico
February 25, 2021

Nacional Financiera, S. N. C.,
Institución de Banca de Desarrollo and Subsidiaries
Av. Insurgentes Sur 1971, Col. Guadalupe Inn, Zip Code 01020 Mexico City
Consolidated Balance Sheets
Years ended December 31, 2020 and 2019
(Millions of Mexican pesos)

Assets	**2020**	2019
Cash and cash equivalents (Note 6)	**$ 76,799**	$ 61,803
Margin accounts	**165**	21
Investment securities (Note 7)		
Trading	**224,048**	211,124
Available-for-sale	**17,453**	16,522
Held-to-maturity	**13,063**	13,042
	254,564	240,688
Debtors on repurchase/resell agreements (Note 8)	**180**	9,550
Derivatives (Note 9)		
Trading purposes	**5,911**	1,870
Hedging purposes	**3,461**	1,461
	9,372	3,331
Valuation adjustment from hedging of financial assets	**4,934**	2,161
Current loan portfolio		
Commercial loans		
Business or commercial activity	**51,721**	51,829
Financial entities	**165,900**	163,983
Government entities	**3,143**	9,274
	220,764	225,086
Consumer loans	**15**	20
Residential mortgages loans	**94**	104
Loans granted as Federal Government Financial Agent	**-**	9
Total current loan portfolio	**220,873**	225,219
Past-due loan portfolio		
Commercial loans		
Business or commercial activity	**528**	488
Financial institutions	**-**	228
	528	716
Consumer loans	**6**	6
Residential mortgages loans	**5**	9
Total past-due loan portfolio	**539**	731
Loan portfolio	**221,412**	225,950
(-) less:		
Allowance for loan losses	**(8,071)**	(7,953)
Total loan portfolio, net (Note 10)	**213,341**	217,997
Other accounts receivable, net (Note 11)	**37,392**	6,867
Foreclosed assets, net (Note 12)	**-**	-
Property and equipment, net (Note 13)	**1,444**	1,483
Permanent investments and other investments (Note 14)	**2,939**	2,904
Deferred income taxes and employee statutory profit sharing, net	**3,088**	3,260
Other assets		
Deferred income charges, prepaid expenses and intangibles	**831**	865
	831	865
Total assets	**$ 605,049**	$ 550,930

Liabilities and Stockholders' Equity	**2020**	2019
Deposit funding (Note 15)		
Time deposits		
Money market	**$ 136,051**	$ 145,441
Debt securities issued		
In the Country:		
Stock certificates (Note 16)	**61,099**	65,817
Abroad		
Bank bonds (Note 17)	**39,073**	33,581
Stock notes	**4,829**	13,826
	241,052	258,665
Bank and other borrowings (Note 18)		
Due on demand	**26,397**	8,669
Short-term	**8,216**	11,319
Long-term	**15,791**	13,094
	50,404	33,082
Creditors on repurchase/resell agreements (Note 8)	**247,648**	200,418
Derivatives (Note 9)		
Trading purposes	**5,974**	1,917
Hedging purposes	**8,147**	5,795
	14,121	7,712
Valuation adjustments from hedging financial liabilities	**4,150**	73
Other accounts payable (Note 19)		
Income tax payable	**73**	101
Employee statutory profit sharing payable		-
Creditors on settlement of transactions		7,405
Creditors on collateral received in cash	**2,652**	319
Sundry creditors and other accounts payable	**2,773**	3,560
	5,498	11,385
Deferred credits and prepayments	**72**	82
Total liabilities	**562,945**	511,417
Stockholders' equity (Note 22)		
Paid-in capital		
Capital stock	**9,293**	9,202
Contribution for future capital increases formalized	**13,178**	7,264
Paid stock premium	**15,510**	14,225
	37,981	30,691
Earned capital		
Statutory reserves	**1,730**	1,730
Retained earnings	**5,817**	8,089
Result from valuation of available for sale securities, net	**(74)**	5
Result on valuation of cash flow hedge instruments	**1**	-
Remeasurements of defined employee benefits, net	**(1,358)**	(1,442)
Effects of valuation in associate and affiliate companies	**635**	1,125
Net income	**(4,228)**	(2,272)
	2,523	7,235
Non-controlling interest	**1,600**	1,587
Total stockholders' equity	**42,104**	39,513
Total liabilities and stockholders' equity	**$ 605,049**	$ 550,930

Nacional Financiera, S. N. C.,
Institución de Banca de Desarrollo and Subsidiaries
Av. Insurgentes Sur 1971, Col. Guadalupe Inn, Zip Code 01020 Mexico City
Years ended December 31, 2020 and 2019
Consolidated Statements of Income
(Millions of Mexican pesos)

Memorandum accounts (Note 23)

	2020	2019
Contingent assets and liabilities	**$ 77,729**	$ 80,109
Loan commitments	**299,403**	282,255
Assests placed in trust or mandate		
Trusts	**1,572,581**	1,691,894
Mandates	**14,444**	13,864
	1,587,025	1,705,758
Federal Government Financial Agent	**389,477**	368,085
Assets in custody or administration	**559,621**	537,959
Collateral received by the entity	**3,098**	53,371
Collateral received and sold or pledged as a guarantee by the entity	**3,100**	43,819
Investment banking transactions on behalf of third parties, net	**108,140**	103,837
Interest earned but not collected arising from past-due loan portfolio	**1**	73
Other memorandum accounts	**721,257**	694,613

These consolidated balance sheets were prepared in accordance with the Accounting Criteria for Lending Institutions issued by the National Banking and Securities Commission, based on Articles 99, 101, and 102 of the Law for Lending Institutions which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly they reflect the transactions carried out by the Institution through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions

At December 31, 2020 and 2019, the historical capital stock, in accordance with the Regulation of the Organic Law of Nacional Financiera, S. N. C., I. B. D amounts to $2,390 in both years.

These consolidated financial statements could be searchable on the following webpage https://www.nafin.com/ portalnf/content/nafin-en-cifras/informacion-financiera/estados_financieros_dictaminados.html and https://portafolioinfo.cnbv.gob.mx/Paginas/Contenidos .aspx?ID=37&Titulo=Banca de Desarrollo

These consolidated balance sheets were approved by the Board of Directors, under the responsibility of the following officers.

Carlos Noriega Romero
Chief Executive Officer

José Alberto Gómez Sandoval
Chief Executive Officer of
Finance and Administration

María Teresa Ortiz Medina
Director of Accounting and Budget Departament

Manuel Anaya Vallejo
Director of Internal Audit Department

See accompanying notes to consolidated financial statements.

Nacional Financiera, S. N. C.,
Institución de Banca de Desarrollo and Subsidiaries
Av. Insurgentes Sur 1971, Col. Guadalupe Inn, Zip Code 01020 Mexico City
Years ended December 31, 2020 and 2019
Consolidated Statements of Income
(Millions of Mexican pesos)

		2020		2019
Interest income (Note 24)	$	**29,616**	$	38,623
Interest expense (Note 24)		**(22,623)**		(32,852)
Financial margin		**6,993**		5,771
Allowance for loan losses (Note 10)		**(305)**		(930)
Financial margin adjusted for the allowance for loan losses		**6,688**		4,841
Commission and fees income		**3,935**		3,271
Commission and fees expense		**(182)**		(172)
Financial intermediation income		**(1,104)**		41
Other operating income (expenses), net (Note 11, 24)		**(11,001)**		(7,210)
Administrative and promotion expenses		**(2,902)**		(2,995)
Operating income		**(4,566)**		(2,224)
Equity method in the net income of unconsolidated subsidiaries and afilliates		**30**		30
Income, before income taxes		**(4,536)**		(2,194)
Current income tax (Note 21)	**$**	**(24)**		(838)
Deferred income tax, net (Note 21)		**387**		756
Net income		**(4,173)**		(2,276)
Non-controlling interests		**55**		(4)
Net income on controlling interests	$	**(4,228)**	$	(2,272)

These consolidated statements of income were prepared in accordance with the Accounting Criteria for Lending Institutions issued by the National Banking and Securities Commission, based on Articles 99, 101, and 102 of the Law for Lending Institutions which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly they reflect the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

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These consolidated statements of income were approved by the Board of Directors, under the responsibility of the following officers.

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Chief Executive Officer

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Director of Internal Audit Department

See accompanying notes to consolidated financial statements.

Nacional Financiera, S. N. C.,
Institución de Banca de Desarrollo and Subsidiaries
Av. Insurgentes Sur 1971, Col. Guadalupe Inn, Zip Code 01020 Mexico City
Years ended December 31, 2020 and 2019
Consolidated Statements of Changes in Stockholders' Equity
(Millions of Mexican pesos)

	Paid in capital			Earned capital								
	Capital stock	Contributions for future capital stock increases formalized by the Board of Directors	Paid stock premium	Statutory reserves	Retained earnings	Result from valuation of available-for-sale securities	Result on valuation of cash flow hedge instruments, net	Remeasurments of defined employee benefits, net	Effects of valuation in associated and affiliated companies	Net Income	Non-controlling interest	Total stockholder's equity
Balances as of December 31, 2018	$ 9,202	$ 1,376	$ 14,225	$ 1,730	$ 5,650	$ (202)	$ -	$ 32	$ 1,102	$ 2,439	$ 1,563	$ 37,117
Changes resulting from stockholders' resolutions:												
Appropriation of prior year income	-	-	-	-	2,439		-	-	-	(2,439)	-	-
Contributions for future capital stock increases	-	5,888	-	-	-	-	-	-	-	-	-	5,888
Total	-	5,888	-	-	2,439	-	-	-	-	(2,439)	-	5,888
Changes related to the recognition of comprehensive income												
Net income	-	-	-	-	-	-	-	-	-	(2,275)	-	(2,275)
Result from valuation in associated and affiliated companies	-	-	-	-	-	-	-	-	23	-	-	23
Result from valuation of available-for-sale securities	-	-	-	-	-	207	-	-	-	-	-	207
Remeasurements of defined employee benefits, net	-	-	-	-	-	-	-	(1,474)	-	3	-	(1,471)
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	24	24
Total of changes related to the recognition of comprehensive income	-	-	-	-	-	207	-	(1,474)	23	(2,272)	24	(3,492)
Balances as of December 31, 2019	9,202	7,264	14,225	1,730	8,089	5	-	(1,442)	1,125	(2,272)	1,587	39,513
Changes resulting from stockholders' resolutions:												
Appropriation of prior year income	-	-	-	-	(2,272)	-	-	-	-	2,272	-	-
Contributions for future capital stock increases	-	7,290	-	-	-	-	-	-	-	-	-	7,290
Capitalization of contributions for future capital stock increases	91	(1,376)	1,285	-	-	-	-	-	-	-	-	-
Total	91	5,914	1,285	-	(2,272)	-	-	-	-	2,272	-	7,290
Changes related to the recognition of comprehensive income												
Net income	-	-	-	-	-	-	-	-	-	(4,173)	-	(4,173)
Result from valuation in associated and affiliated companies	-	-	-	-	-	-	-	-	(490)	-	-	(490)
Result from valuation of available-for-sale securities, net	-	-	-	-	-	(79)	-	-	-	-	-	(79)
Result on valuation of cash flow hedge instruments, net	-	-	-	-	-	-	1	-	-	-	-	1
Remeasurements of defined employee benefits net	-	-	-	-	-	-	-	84	-	-	-	84
Non-controlling interest	-	-	-	-	-	-	-	-	-	(55)	13	(42)
Total of changes related to the recognition of comprehensive income	-	-	-	-	-	(79)	1	84	(490)	(4,228)	13	(4,699)
Balances as of December 31, 2020	**$ 9,293**	**$ 13,178**	**$ 15,510**	**$ 1,730**	**$ 5,817**	**$ (74)**	**1**	**$ (1,358)**	**$ 635**	**$ (4,228)**	**$ 1,600**	**$ 42,104**

These consolidated statements of changes in stockholders' equity were prepared in accordance with the Accounting Criteria for Lending Institutions issued by the National Banking and Securities Commission, based on Articles 99, 101, and 102 of the Law for Lending Institutions which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly they reflect the transactions carried out by the Institution for the yearsnoted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions

These consolidated financial statements could be searchable on the following webpage https://www.nafin.com/portalnf/content/nafin-en-cifras/informacion-financiera/estados_financieros_dictaminados.html and https://portafolioinfo.cnbv.gob.mx/Paginas/Contenidos.aspx?ID=37&Titulo=Banca de Desarrollo

These consolidated statements of changes in stockholders' equity were approved by the Board of Directors, under the responsibility of the following officers.

Carlos Noriega Romero
Chief Executive Officer

José Alberto Gómez Sandoval
Chief Executive Officer of Finance and Administration

María Teresa Ortiz Medina
Director of Accounting and Budget Departament

Manuel Anaya Vallejo
Director of Internal Audit Department

See accompanying notes to consolidated financial statements.

Nacional Financiera, S. N. C.,
Institución de Banca de Desarrollo and Subsidiaries
Av. Insurgentes Sur 1971, Col. Guadalupe Inn, Zip Code 01020 Mexico City
Years ended December 31, 2020 and 2019
Consolidated Statements of Cash Flows
(Millions of Mexican pesos)

	2020	2019
Net Income	$ (4,228)	$ (2,272)
Adjustments for items not requiring cash flow:		
Allowance for uncollectible or doubtful accounts (Note 11)	3,353	585
Depreciation of property, furniture and equipment	41	37
Provisions	144	133
Current and deferred income taxes	559	(844)
Equity method of unconsolidated subsidiaries and afilliates	(30)	(30)
Others, mainly valuation at fair value	445	(28)
	4,512	(147)
Operating activities:		
Change in margin accounts	(145)	(4)
Change in investment securities	(14,321)	3,985
Change in debtors on repurchase/ resell agreements	9,370	(9,550)
Change in derivatives (asset)	(8,813)	(10,110)
Change in loan portfolio (net)	4,657	34,556
Change in foreclosed assets	-	-
Change in other operating assests	(34,208)	8,368
Change in deposit funding	(17,613)	(4,717)
Change in bank and other borrowings	17,322	1,947
Change in creditors on repurchase/ resell agreements	47,229	(18,205)
Change in derivatives (liability)	10,380	10,812
Change in other operating liabilities	(5,951)	(15,863)
Payments of income taxes	(29)	(243)
Net cash flows from operating activities	7,878	976
Investing activities:		
Payments for acquisition of property, furniture and equipment	(2)	(68)
Proceeds from disposal of subsidiaries and associates	(483)	100
Collections of cash dividends	29	18
Net cash from investing activities	(456)	50
Financing activities:		
Contributions for future capital stock increases	7,290	5,888
Net cash flow from financing activities	7,290	5,888
Net increase in cash and cash equivalents	14,996	4,495
Cash and cash equivalents at beginning of year	61,803	57,308
Cash and cash equivalents at end of year	$ 76,799	$ 61,803

These consolidated statements of cash flows were prepared in accordance with the Accounting Criteria for Lending Institutions issued by the National Banking and Securities Commission, based on Articles 99, 101, and 102 of the Law for Lending Institutions which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly they reflect the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

These consolidated financial statements could be searchable on the following webpage https://www.nafin.com/portalnf/content/nafin-en-cifras/informacion-financiera/estados_financieros_dictaminados.html and https://portafolioinfo.cnbv.gob.mx/Paginas/Contenidos.aspx?ID=37&Titulo= Banca de Desarrollo

These consolidated statements of cash flows were approved by the Board of Directors, under the responsibility of the following officers.

Carlos Noriega Romero
Chief Executive Officer

José Alberto Gómez Sandoval
Chief Executive Officer of Finance and Administration

María Teresa Ortiz Medina
Director of Accounting and Budget Departament

Manuel Anaya Vallejo
Director of Internal Audit Department

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(Millions of Mexican pesos)

1. NATURE OF OPERATIONS AND MAIN ACTIVITIES

Nacional Financiera, S.N.C. Institución de Banca de Desarrollo (the Institution), was formed on June 30, 1934, by Federal Government Decree as an instrument of significant social and economic transformations, with the purpose of promoting the securities market and foster the mobilization of the financial resources in Mexico.

The Institution has its offices at Avenida de los Insurgentes Sur 1971, Col. Guadalupe Inn, Alcaldía Álvaro Obregón, Postal Code 01020, Mexico City, Mexico.

The Institution operates as a development banking institution, in accordance with its internal Organic Law and Regulations, the Lending Institutions Law and the General Provisions applicable to Lending Institutions (the Provisions) issued by the National Banking and Securities Commission (the Banking Commission or CNBV - for its acronym in Spanish).

The Institution's purpose is to contribute to the development of companies, by providing access to financing products, training, technical assistance and information, in order to foster their competitiveness and the productive investment; promote the development of strategic and sustainable projects for the country, in an orderly and targeted manner, under schemes that allow correction of market failures in coordination with other development banks; promote the regional and sectoral development of the Country, particularly in the states with less development, through a differentiated product offer and according to the productive vocations of each region: developing the financial markets and the venture capital industry in the Country, to serve as sources of financing for entrepreneurs and small and medium enterprises; to be an Institution with an effective management, based on a consolidated structure of corporate governance, that ensures a continuous and transparent operation, as well as the preservation of its capital and to not represent a financial burden to the Federal Government.

In accordance with the Provisions of article 2 of the Institution's internal regulation, the Institution has the goal of promoting savings and investment, as well as channeling financial and technical supports to industrial development and, in general, to the national and regional economic development of the country.

The Institution operates according to the applicable legal framework and sound banking practices and applications to achieve the general objectives outlined in the 4th article of the Lending Institutions Law, which establishes that the state shall exercise the rectory of the Mexican banking system, thus the Institution basically directs its activities to support and promote the development of the Country's productive system and the growth of the national economy, based on a sovereign economic policy, by promoting savings in all sectors and regions of Mexico and their appropriate channeling and extensive regional coverage to favor the decentralization of the Mexican banking system, with adherence to sound practices and banking applications.

Development banking institutions are oriented to the productive activities determined by the Union Congress as a specialty of each one of these, in the respective internal regulations.

The Institution carries out its operations according to financing criteria for development banking, channeling its resources mainly through the first-tier banking and non-banking financial intermediaries. The main funding sources for the Institution arise from loans from international development institutions such as the International Bank for Reconstruction and Development and the Inter-American Bank of Development (IADB), lines of credit from foreign banks and placement of securities in the national and international financial markets.

As of December 31, 2020 and 2019, the Institution and its consolidated subsidiaries are integrated as follows:

i. *Operadora de Fondos Nafinsa, S.A. de C.V.*– Which aims to contribute to the development of financial markets, promoting access to the securities market to small and medium investors.

ii. *Corporación Mexicana de Inversiones de Capital, S.A. de C.V.*– Incorporated on February 2, 2006, its main activity being to buy, sell and invest in companies, institutions and private equity funds, as well as promote productive investment in Mexico in the medium and long-term, promoting the institutionalization, development and competitiveness of the small and medium enterprises.

iii. *Fideicomiso 80595 Programa de venta de títulos en directo al público*– Manages the trust funds and carries out the necessary actions to develop and implement the Program for the sale of securities directly to the public, in accordance with the operation rules, which, were appropriate, the Trust's Technical Committee authorizes.

iv. *Fideicomiso 11480 Fondo para la participación de riesgos*– Its purpose is having entities which allow to fulfill compliance with the institutional objectives related to the access of micro, small and medium-sized companies in the Country to formal finance. The Institution implemented the guarantee program, in order to share with the financial banking and non-banking institutions (intermediaries) determined by the Trust's Technical Committee, the credit risk of the financing that these grant to national companies and individuals.

v. *Fideicomiso 11490 Fondo para la participación de riesgos en fianzas*– Its purpose is sharing with the country's bonding institutions, established in accordance with the Federal law for bonding institutions determined by the Trust's Technical Committee, the risk of default on administrative bonds and/or procurement concerning section III, article 36 of the law of bonds, granted to micro, small and medium- sized enterprises, as well as to individuals with entrepreneurial activity, which have signed a contract to supply goods, services and public works to the Federal public administration.

vi. *Fideicomiso 80757 Defensa y Asistencia Legal*– Its objective is to manage the trust corpus and make the payment of the considerations for defense services and legal assistance to the beneficiaries (NAFIN employees), who have a legal or administrative proceeding arising from discharging their duties.

vii. *Plaza Insurgentes Sur, S.A. de C.V.*– Its purpose is to provide the Institution with integral real estate services through the leasing of space and furniture, as well as adaptation of offices with preventive and corrective maintenance programs to real estate infrastructure.

viii. *Pissa Servicios Corporativos, S.A. de C.V. (in liquidation)*– Provides complementary or auxiliary services in the administration or in the realization of the corporate purpose of any national credit entity that is or becomes its shareholder, as well as auxiliary companies and trusts thereof.

As of December 31, 2020 and 2019, the operations structure of the Institution abroad, includes two branches located one in London, UK and another in the Grand Cayman Islands.

IMPACTS OF COVID-19 AND CONTINGENCY PLAN FOR BUSINESS CONTINUITY

Management implemented the Contingency plan for maintaining Business Continuity at the Institution under the scenario of the pandemic. The measures carried out, among other things, are:

- Weekly follow-up on the operation of the Institution (amount and number of transactions).
- Foster the telecommuting shift:
- The Institution's facilities were sanitized periodically, and masks, alcohol gel, and protective masks were delivered. Entries by persons were filtered by applying pulse oximeters and taking temperatures, and sanitary rounds were made at the workplace of the collaborators who went to the offices.
- Medical attention for personnel with symptoms at the doctor's office installed by the Institution for COVID-19; sanitary barrier for contacts of confirmed cases of personnel with COVID-19.

No effects have been observed in the operation of the Institution, and the customary operation has continued. In addition, the emerging programs have been taken care of, as well as the new regulatory Provisions arising from the contingency due to the pandemic. All of the Institution's informatics services are operating and no major incidents have taken place. No incidents have materialized with regard to information security, and follow-ups have been implemented for operating risk incidents.

As of December 31, 2020, there has been no information security incident. The information security department continues to carry out a campaign to reinforce the knowledge of information security that Institution personnel have during their telecommuting work shift, as well as to reinforce their awareness.

As of the date of approval of the financial statements, weekly meetings continue to be held with the participation of the Deputy Executive Officers and Directors of the Institution in order to follow up on the contingency plan implemented to deal with the COVID-19 pandemic.

CNBV SPECIAL ACCOUNTING CRITERIA IN DEALING WITH THE CONTINGENCY CAUSED BY THE SARS-CoV2 (COVID-19) VIRUS, APPLICABLE TO LENDING INSTITUTIONS

Pursuant to Article 175 of the "General Provisions applicable to Lending Institutions" and in view of the "Agreement whereby the General Health Council recognizes the SARS-CoV2 (COVID-19) virus epidemic in Mexico as a serious disease requiring priority attention", the Banking Commission recognizes the pandemic for the SARS-CoV2 (COVID-19) virus, published in the Official Daily Gazette on March 23, 2020, and the negative impact generated in various activities of the economy. The Commission further issued temporary Special Accounting Criteria applicable to Lending Institutions in dealing with the Contingency of COVID-19, pursuant to Official Letters P285/2020, P293/2020, and P325/2020, dated March 26, April 15, and June 23, 2020, respectively, applicable to lending institutions with regard to the consumer lending portfolio, as well as housing and trade portfolios for customers who have been affected by that contingency and that were classified as performing for accounting purposes in the periods set out for those criteria.

In this regard, the Internal Credit Committee of the Institution authorized the "General and Specific Guidelines for rescheduling amortizations of borrowers of the Institution in dealing with the circumstances caused by the SARS-CoV2 (COVID-19) virus, as well as supporting measures" (The Guidelines), on April 3, 2020, in order to: i. The borrowers of the Institution can access a rescheduling scheme of payments on capital and/or interest; ii. Accompany and support Financial Brokers in implementing various benefits and schemes to support sole proprietors and legal entities in the industry, commerce, and service sectors to deal with the economic impact brought on by the pandemic of the SARS-CoV2 (COVID-19) on their businesses; iii. Support companies by granting financing for their working capital needs, in order for those companies to be able to maintain jobs and realize the most essential expenses to continue with their operation. The conditions and application of the special accounting criteria are discussed in detail in Note 4a) to the consolidated financial statements.

2. APPROVAL AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Authorization

On February 25, 2021, Carlos Noriega Romero (Chief Executive Officer), José Alberto Gómez Sandoval (CEO of Finance and Administration), Manuel Anaya Vallejo (Director of Internal Audit) and María Teresa Ortiz Medina (Director of the Accounting and Budget Department) authorized the issuance of the consolidated financial statements and related notes, consequently, they do not reflect events beyond that date.

The Institution's Board of Directors and the Banking Commission are empowered to modify the consolidated financial statements after issuance. The 2020 consolidated financial statements will be approved at the next meeting of the Board of Directors.

Bases of presentation

a) Statement of compliance

The accompanying consolidated financial statements were prepared in conformity with the banking legislation, and in accordance with the accounting criteria for lending institutions in Mexico, set out by the Banking Commission, which is responsible for the inspection and oversight of lending institutions, as well as the review of their financial information. Moreover, beginning April 2020, the Institution applied the special accounting criteria issued by the Banking Commission to deal with the COVID-19 Contingency, with regard to the consumer lending portfolio, as well as housing and trade portfolios for customers who have been affected by that contingency and who were classified as performing for accounting purposes in the periods set out in those criteria. Toward that end, the Institution drew up the guidelines to have them applied appropriately as discussed in detail in Note 4a).

The accounting criteria provide that in the absence of a specific accounting criterion by the Banking Commission for lending institutions, and in a wider context in the Mexican Financial Reporting Standards (MFRS), issued by the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A.C. or CINIF - for its acronym in Spanish), the suppletory process as established by MFRS A-8 shall be applicable, and only when the International Financial Reporting Standards (IFRS) referred to by MFRS A-8 do not resolve the accounting treatment, the suppletory application of an accounting standard pertaining to any other regulatory framework may be opted for, provided that all the requirements set out by the MFRS are met by the standard. The suppletory application shall be in the following order: U.S. Generally Accepted Accounting Principles (US GAAP), and then any other accounting standard that is part of a formal and recognized set of standards, provided that they do not contravene the accounting criteria of the Banking Commission.

b) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the year. Actual results may differ from these estimates and assumptions.

Significant management judgments

The information about judgments made in the application of accounting policies that have the most significant effect on amounts reported in the consolidated financial statements are described in Note 3 n) Permanent Investments: Whether the Institution has significant influence.

Assumptions and uncertainties in the estimates

The 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 in the following year is included in the following notes:

— Note 3(t)– Measurement of defined benefit obligations: key actuarial assumptions;

— Note 3(p)– Recognition of deferred tax assets;

— Note 9– Derivatives;

— Note 10(d)– Allowance for loan losses.

c) Functional and reporting currency

The consolidated financial statements are presented in Mexican pesos, which is the reporting currency, as well as the recording currency and the functional currency.

For purposes of disclosure in the notes to the consolidated financial statements, “pesos” or “$” refers to millions of Mexican Pesos, and when reference is made to “dollars” or “USD”, it means millions of dollars of the United States of America.

d) Recognition of assets and liabilities from financial instruments

Assets and liabilities related to the purchase and sale of foreign currencies, investment securities, repurchase/resell agreements and derivatives are recognized in the accompanying consolidated financial statements on the trade date, regardless of the settlement date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies which are described below have been applied consistently in the preparation of the consolidated financial statements, and have been consistently applied by the Institution:

a. Consolidation of financial statements

The consolidated financial statements include the assets, liabilities and results of the Institution and its subsidiary companies, in which it exercises control through the power it has over them to direct its relevant activities, is exposed to or is entitled to variable returns from that participation and it has the ability to affect those returns through its power over those subsidiaries.

All balances and operations between the Institution and its subsidiary companies have been eliminated in the consolidation process, including unrealized gains and losses.

All subsidiaries present their financial information for consolidation purposes as of December 31, 2020 and 2019.

b. Impact of inflation

The accompanying consolidated financial statements include the recognition of inflation based on Investment Units (Unidades de Inversión or UDI) until December 31, 2007, according to the applicable accounting criteria.

The years ended December 31, 2020 and 2019 are considered under a non-inflationary economic environment (inflation accumulated over the three preceding years less than 26%), as established in MFRS B-10 "Effects of Inflation", consequently the effects of inflation on the Institution's financial information are not recognized. Should the environment become inflationary again, the cumulative effects of inflation not recognized in prior periods must be retrospectively recognized from the last period that the economic environment was considered as non- inflationary. The accumulated inflation rate of the last three years is shown as follows:

		Inflation	
December 31	UDI	Annual	Accumulated
2019	6.399018	2.77%	15.03%
2018	6.226631	4.92%	15.71%
2017	5.934551	6.68%	12.60%

c. Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, deposits with banks in pesos and dollars, as well as 24, 48 and 72 hours foreign currency purchase and sale transactions. It also includes restricted cash and cash equivalents comprised of bank borrowings with original maturities of up to three days ("Call Money"), and deposits in Banco de México (Central Bank) which include the monetary regulation deposits that the Institution is required to maintain in conformity with the Provisions issued by the Central Bank for the purpose of regulating liquidity in the financial market; the deposits have no term and bear interests at the average banking funding rate, recognized in the consolidated statements of income as they accrue.

The cash and cash equivalents are recognized at nominal value. For dollar currencies, the exchange rate used for the translation is the one published by the Central Bank. The translation effect is recognized in the consolidated statements of income, as interest income or interest expense, accordingly.

Notes receivable will be recorded as other cash equivalent according to the following:

- Transactions with Mexican entities: two business days after the transaction took place.
- Transactions with foreign entities: five business days after the transaction took place.

When the aforementioned notes are not collected within the established deadlines, the related amounts will be transferred to the originating item, as applicable, either "Other accounts receivable" or "Loan portfolio", and due consideration is given to the Provisions of criterion A-2, "Application of specific standards", and B-6 "Loan portfolio", respectively.

The transactions transferred to sundry debtors under the caption "Other accounts receivable", and that are not settled within fifteen days following the transfer date will be classified as past-due and an allowance for their total amount will be recorded concurrently.

Notes received subject to collection are recorded in memorandum accounts under the caption "Other memorandum accounts".

Checking account overdrafts, as reported in the bank statement issued by the corresponding lending institution, are shown in the caption "Sundry creditors and other accounts payable".

Likewise, the balance of receivable currencies offset against deliverable currencies, in case this offset results negative.

The foreign exchange currencies acquired and agreed to be settled in 24, 48 and 72 hours purchase/sell transactions are recognized as restricted cash (foreign currency receivable), while the currency sold is recorded as cash outflow (foreign currency deliverable). The rights and obligations from the 24, 48 and 72 hours sales and purchases of foreign exchange are recorded in clearing accounts under the caption "Other accounts receivable" and "Creditors on settlement of transactions", respectively.

d. Margin accounts

The margin accounts granted in cash required from the Institution to operate derivatives in recognized markets are recorded at their normal value and presented in the caption "Margin accounts". The value of margin accounts granted in cash is modified by margin calls or withdrawals made by the clearing house and by additional contributions or withdrawals made by the Institution.

Returns and commissions affecting the margin accounts, other than fluctuations in derivatives prices, are recognized in the result of operations for the year as accrued under "Interest income" and "Commission and fees expense", respectively. The partial or total settlement amounts deposited or withdrawn by the clearinghouse owing to derivatives price fluctuations are recognized in "Margin accounts".

e. Investment securities

Investment securities consist of equities, government securities, bank promissory notes, and other debt securities listed in recognized markets, which are classified using the categories shown below, based on the intention and ability of Institution's Management on their ownership:

Trading securities

Trading securities are those acquired with the intention of selling them to get short-term gains arising from differences in prices resulting from their trading in the market. Securities at the time of acquisition are accounted for at fair value (which includes, where applicable, the discount or premium) which presumably corresponds to the price paid; transaction costs for the acquisition of securities are recognized in the statements of income on the same date.

Subsequently, securities are valued at fair value provided by an independent price vendor; when the securities are sold, the gain (loss) on purchase/sell is determined by the difference between the purchase and sale prices; this shall cancel the gain (loss) on valuation that has been previously recognized in the statements of income.

Interest earned on debt securities are determined according to the effective interest method and are recognized in the year's income under the caption "Interest income".

Dividends from equity securities are recognized in the year's income when the right to receive payment arises, under the caption "Interest income".

Valuation effects and purchase or sale gain (loss) are recognized in the year's income within the caption "Financial intermediation income".

Available for sale securities

Available-for-sale securities are those for which there is neither the intention to profit from differences in prices in the short-term nor the intention or capacity to hold to maturity. The initial recognition and subsequent valuation is performed in the same manner as trading securities, except that the effect of valuation is recognized in stockholders' equity under the caption "Result from valuation of available-for-sale securities", which is adjusted by the effect of deferred taxes, and then is cancelled by its recognition in the statements of income at the time of the sale within the caption of "Financial intermediation income".

Interests earned are determined according to the effective interest method and are recognized in the year's statement of income under the caption "Interest income".

Dividends from equity instruments are recognized in the year's statement of income when the right to receive payment arises, in the financial statements caption "Interest income".

Held to maturity securities

Those are debt securities with fixed or determinable payments and with fixed maturity, for which the entity has the intention and capacity to hold until maturity. These securities are initially recognized at fair value which is presumably the price paid; and later are valued at amortized cost, which implies that the amortization of the premium or discount as well as the transaction costs form part of the interests earned recognized in the statements of income under "Interest income". Interest is recognized in the statements of income as earned and when the securities are sold, the gain (loss) from purchase-sell is recognized for the difference between the net realizable value and the book value of the securities within the caption of "Financial intermediation income".

Securities impairment

Where sufficient objective evidence exists that a security available-for-sale or held-to-maturity has been impaired because of one or more events that occurred after the securities initial recognition, the carrying amount of the security is modified and the impairment is recognized in the current year's profit under the caption "Financial intermediation income". Regarding available-for-sale securities, the amount of loss recognized in equity is canceled.

If, in a subsequent period, the fair value of the security increases, and this effect is related objectively to an event occurring after the impairment was recognized in the statements of income, the impairment is reversed in the year's statement of income, except if it is an equity instrument.

Value date transactions

Securities acquired where settlement takes place on a subsequent date, up to a maximum of four business days following the date of the purchase-sale transaction, are recognized as restricted securities, while securities sold are recognized as securities to be delivered, and are deducted from investment securities; the counter entry is a credit or debit to a settlement account, as applicable. Where the amount of securities to be delivered exceeds the balance of same nature proprietary securities (government, bank, equity and other debt securities), this is reflected as a liability under the "Assigned securities pending settlement" caption.

Reclassification between categories

The accounting criteria allow the reclassifications from held-to-maturity to available-for-sale securities, provided that there is no intention or capacity to hold them until maturity.

Valuation adjustments at the date of the reclassifications are recognized in stockholders' equity. In the case of reclassifications of securities to the held-to-maturity category, or of securities from trading to available for sale, this is only permissible with the express authorization of the Banking Commission

f. Repurchase/resell agreements

At the trade date of the repurchase/resell agreement transaction (reporto), the Institution acting as seller recognizes either the cash inflow or a debit clearing account, as well as an account payable, whereas when acting as buyer recognizes either the cash outflow or a credit clearing account, as well as an account receivable. Both the account payable and the account receivable are initially stated at the agreed-upon price, representing the obligation to repay or the right to recover the cash, respectively.

Over the term of the reporto, the account receivable and the account payable are valued at amortized cost, recognizing the interest on reporto in the result of operations for the year as earned, in accordance with the effective interest method. The interest is recognized under the financial statement caption "Interest income" or "Interest expense", as appropriate. The account receivable and the account payable, as well as the interest earned are reported in the financial statement caption "Debtors on repurchase/resell agreements" and "Creditors on repurchase/resell agreements", respectively.

The Institution acting as buyer recognizes the received collateral in memorandum accounts within the caption of "Collateral received by the entity", in accordance with accounting criterion B-9 "Assets in custody and under management".

Financial assets granted as collateral, when the Institution is acting as seller, are reclassified in the consolidated balance sheets within the caption of "Investment securities", reporting it as a restricted asset.

Should the Institution, acting as buyer sell or pledge the collateral, the proceeds from the transaction are recognized and an account payable is recorded for the obligation to return the collateral to the seller, which is valued, in the case of a sale at fair value, or if pledged in another sale and repurchase agreement, at amortized cost. The account payable is offset with the account receivable, which is recognized when the Institution acting as buyer becomes the seller and the debit or credit balance is presented in the consolidated financial statement caption "Debtors on repurchase/resell agreements" or in "Collaterals sold or pledged", as applicable.

Additionally, the collateral received, delivered or sold is recognized in memorandum accounts within the caption of "Collateral received and sold or pledged by the entity", in accordance with accounting criterion B-9 "Assets in custody and under management".

g. Derivatives

Transactions with derivative financial instruments comprise those carried out for trading and hedging purposes. Irrespective of their purpose, the derivatives are recognized at fair value.

The valuation effect of the derivatives for trading purposes is shown in the consolidated balance sheets and consolidated statements of income under "Derivatives", in the assets or liabilities, accordingly, and "Financial intermediation income", respectively.

The effective portion of the valuation gain (loss) of hedges designated for cash flow purposes is recognized in stockholders' equity, under the caption "Gain (loss) from valuation of cash flow hedge instruments", while the ineffective portion of the change in fair value is recognized immediately in the consolidated statements of income under "Financial intermediation income", and the counter-account with such effect is presented in the consolidated balance sheets under "Derivatives". The gain or loss associated with the coverage of the forecasted transaction that has been recognized in stockholders' equity, is reclassified to the consolidated statements of income within the same caption that presents gain (loss) from valuation of the hedged party attributable to the hedged risk, in the same period during which the hedged forecasted cash flows affect the year's results of operations.

If the cash flow hedge derivative reaches maturity, is exercised, terminated or the hedge does not meet the requirements to be deemed effective, the hedge designation is canceled, while the valuation of the cash flow hedge derivative within stockholders' equity remains in this caption and is recognized in the year's results when the forecasted transaction occurs, in the same caption which presents the gain or loss from the valuation attributable to the hedged risk.

The gain or loss arising from valuing the fair value hedge derivative is recognized in the consolidated balance sheets under "Derivatives" and in the consolidated statements of income in "Interest income" and "Financial intermediation income", since they correspond to hedges of interest rate on loan portfolio and investments securities classified as available-for-sale, respectively. The result of valuation of the item attributable to the hedged risk is recognized in the consolidated balance sheet under "Valuation adjustments from hedging of financial assets" and recognized in the year's statement of income in "Interest income" in the case of the loan portfolio, while for investments securities classified as available-for-sale, in "Financial intermediation income".

Collaterals pledged and received in derivative transactions carried out over-the-counter

The collateral is a guarantee obtained to ensure payment of the price agreed in contracts with derivative financial instruments in over-the-counter transactions in operations not carried out in recognized markets or exchanges.

The granting of collateral pledged in cash in derivative over-the-counter transactions not performed in recognized markets or exchanges are recorded as account receivable under the caption "Other accounts receivable", while collateral received in cash are recorded as "Other accounts payable".

The collaterals pledged in securities are recorded as restricted securities in guarantees, and the collaterals received in securities from derivatives transactions are recorded in memorandum accounts.

h. Offsetting clearing accounts

Amounts receivable or payable on investment securities, securities repurchase/resell agreements, and/or derivatives, which have expired but have not been settled at the consolidated balance sheets date, including the amounts receivable or payable for purchase or sale of foreign currencies, which are not for immediate settlement or those with a same day value date, are recorded in clearing accounts.

The balances of clearing accounts, credit and debit are offset as long as there is a contractual right to offset amounts recognized, and the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

The clearing accounts are shown under the financial statement caption "Other accounts receivable, net" or "Creditors on settlement of transactions", as appropriate.

i. Loan portfolio

Represents the balance of the total or partial dispositions of credit lines granted to the borrowers plus uncollected accrued interest, less the interest collected in advance. The allowance for loan losses is presented by deducting the balances from the credit portfolio.

Undrawn credit facilities are recorded in memorandum accounts, under "Loan commitments". The withdrawn amount is recorded into the loan portfolio according to the corresponding portfolio category.

At the time of contracting, transactions with letters of credit are recorded in memorandum accounts under "Loan commitments" which, upon being used by the customer or its counterparty are transferred to the loan portfolio.

Past-due loans and interest

Outstanding loans and interest balances are classified as past due according to the following criteria:

1. Knowledge that the borrower has filed for bankruptcy, under the Bankruptcy Law.

   An exemption exist from the aforementioned rule, for those loans that continue receiving payment in terms of the Bankruptcy Law under section VIII of article 43, as well as those loans granted under article 75, in relation to sections II and III of article 224 of the mentioned Law, however, if incurred in one of the cases provided in the following numeral 2, they will be recorded as past-due loan portfolio.

2. Their installments have not been fully settled on the terms originally agreed, considering the following:

   a) If the debt consists in loans with a single payment of principal and interest at maturity, and are 30 or more calendar days past-due;

   b) If the debt refers to loans with a single payment of principal at maturity and periodic payments of interest, and the related interest payment is 90 or more calendar days past-due, or principal is 30 or more calendar days past-due;

   c) If the debt consists of loans with principal and interest periodic partial payments, including mortgage loans, are 90 or more calendar days past-due;

   d) If the debt consists of revolving loans, which are unpaid for two monthly normal billing periods or, where the billing period is other than monthly, when they are 60 or more calendar days past-due; and

   e) Overdrafts from checking accounts, and notes receivable, upon occurrence of such event.

When a loan is transferred to the past-due portfolio, accrual of interest is discontinued and record thereof is kept in memorandum accounts. Also suspending the amortization of accrued financial income in the year's statement of income.

Once collected, such interest is recognized directly in the consolidated statements of income under "Interest income". Recognition in the consolidated statements of income of interest income resumes when the portfolio ceases to be considered as past due.

An allowance is constituted for an amount equal to the total of uncollected accrued interest corresponding to loans deemed past-due at the time the loan is transferred to the past-due portfolio. For past-due loans, which restructuring agrees to the capitalization of earned, uncollected interest previously recorded in memorandum accounts, an allowance is created for the total of such interest amount. The allowance is released when there is evidence of sustained payment.

Past-due loans are reclassified as current when the unpaid balances have been fully paid by the debtor (principal and interest, etc.), except for restructured loans or renewed, which are transferred to current portfolio when sustained payment has been made.

Sustained payment

It is considered that there is sustained payment when the borrower shows compliance of the payment without delay for the total amount of principal and interest, for at least three consecutive amortizations of the loan payment scheme, or in the case of loans with amortizations that cover periods greater than 60 calendar days, the payment of an exhibition.

In loans with periodic payments of principal and interest whose amortizations are less than or equal to 60 days in which the periodicity of payment to fewer periods is modified due to the application of a restructuring, a sustained payment of the loan is considered, when the borrower shows payment of amortizations equivalent to three consecutive amortizations of the original loan scheme.

In the case of consolidated loans, if two or more loans originate the reclassification to the caption "Past-due loan portfolio", in order to determine the three consecutive amortizations required for the existence of a sustained payment, the repayment scheme should be considered, for the original loan whose repayments equal the longer term.

Regarding loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or at maturity, it is considered that there is a sustained payment of the loan when any of the following assumptions occur:

a) the borrower has covered at least 20% of the original amount of the loan at the moment of the restructuring or renewal or,

b) the amount of interest accrued under the restructuring or renewal payment scheme corresponding to a period of 90 days would have been covered.

Prepayment of an amortization of restructured or renewed loan (amortization of restructured or renewed loan that have been paid without the occurrence of natural days equivalent to three consecutive amortizations of the loan amortization schedule or in the case of loans with amortization covering longer periods than 60 calendar days, the payment of an exhibition), other than those with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, is not considered as a sustained payment.

Restructuring and renewals

Unless there is evidence of sustained payments, past-due loans restructured or renewed shall remain within the past-due loan portfolio.

Loans with single payment of principal at maturity and periodic interest payments, as well as loans with a single payment of principal and interest at maturity being restructured during the term of the loan or renewed at any time will be considered as nonperforming loans as long as there is no evidence of sustained payment.

Current loans that are restructured or renewed, without at least 80% of the original loan term having elapsed, shall be deemed current only when the borrower has:

i) Paid the total accrued interest, and

ii) Paid the original principal loan amount which at the renewal or restructuring date should have been covered.

Current loans that are restructured or renewed during the course of the final 20% of the original term of the loan will be considered as current only when the borrower has:

i) Fully paid the total interest accrued;

ii) Covered the total original amount of the loan which at the date of renewal or restructuring should had been paid, and

iii) Paid 60% of the original loan amount.

Renewed or restructured loans where the borrower fails to meet the above conditions will be deemed past-due from the renewal or restructuring date until there is evidence that sustained payments are being made.

Those loans considered revolving, which have been restructured or renewed, will be considered as current when the borrower has paid off the totality of accrued interest, there are no invoicing periods past due and there is evidence to prove the debtor's repayment capability.

Loans with payable principal and interest amounts which, at the restructuring date, have been repaid in full and for which one or several of the following loan conditions have been changed, shall not be deemed restructured or renewed:

i) Guarantees: only when involving the extension or replacement with better quality guarantees

ii) Interest rate: when the agreed-upon interest rate is improved.

iii) Currency: provided that the rate corresponding to the new currency is applied.

iv) Payment date: only if the change does not represent exceeding or modifying the frequency of payments. In no case shall the change in the payment date enable omitting the payment in any given period.

The loan portfolio restructurings or renewals are made in compliance with the General Provisions applicable to Lending Institutions and their viability is analyzed specifically.

The Institution periodically evaluates if a past-due loan should remain in the consolidated balance sheet or be written-off, provided a provision has been created for 100% of the loan amounts. Such write-off is made by cancelling the unpaid loan balance against the allowance for loan losses previously created for each loan when the Institution has exhausted all legal instances to recover the loan. Any recovery derived from loans that were previously written-off is recognized in the year's statement of income.

Write-downs, cancellations, refunds or discounts are recorded against the allowance for loan losses. In case the amount of these items exceeds the allowance for loan losses balance related to the loan, a charge to provision is recorded up to the amount of the difference.

Cost and expenses related to loan origination

The costs and expenses related to loan origination are recorded as a deferred charge, which is amortized to the income statements under the caption "Interest expense" during the average term of the loans, except for origination of revolving loans, which are amortized over a period of 12 months against the expense caption that corresponds according to its nature.

j. Allowance for loan losses

An allowance for loan losses is recorded, which, based on the Institution's management best estimate is sufficient to cover probable losses inherent to the loan portfolio as well as guarantees issued and irrevocable loan commitments.

Commercial loans- The allowances for the commercial loans are based on the individual assessment of the credit risk of borrowers and their classification, in accordance with the general provisions applicable to the rating methodology of the lending institution's loan portfolio, established by the Banking Commission. Commercial loans shall be subject to credit rating without including those loans with guarantee from Entities of the Federal Public Administration under direct budgetary control, productive State enterprises or those indicated in Section VI of Article 112 of the Provisions, in which the allowance percentage shall be equal to 0.5%.

The Provisions use a methodology which classifies the loan portfolio into different groups: in states and municipalities, investment projects with own source of payment, trustees acting under trusts, financial institutions and corporations and individuals with business activity not included in the aforementioned groups; the last group must be divided into two subgroups: corporations and individuals with business activity with annual net sales or revenues greater than 14 million UDIS and less than 14 million UDIS. For purposes of rating projects with own source of payment, the Provisions establish that the rating is calculated using a risk analysis of the investment projects according to their stage of construction or operation, and through the extra cost of labor and cash flows of the project. For other groups, an expected loss methodology is established for credit risk, considering the probability of default, loss given default and exposure to default.

Loan portfolio granted to corporations and individuals with business activity, with annual net revenues or sales lesser than 14 million UDIS, is credit rated through the application of methodology set forth on Appendix 21 of the Provisions. For the financial Institution's loans, the methodology set forth-on Appendix 20 of the Provisions is used, which establishes the concept of probability of default, loss severity and exposure to default.

The estimates carried out as of December 31, 2020 and 2019, were determined based on the risk levels and allowance percentage according to the following table:

Grade of risk	Art 129 CUB Range of allowance percentage	
A1	0.000%	0.90%
A2	0.901%	1.5%
B1	1.501%	2.0%
B2	2.001%	2.50%
B3	2.501%	5.0%
C1	5.001%	10.0%
C2	10.001%	15.5%
D	15.501%	45.0%
E	Higher than 45.0%	

Mortgage loans

Allowance for mortgage loans losses is determined using the corresponding balances the last day of each month. Furthermore, factors such as the following are taken into consideration: i) amount payable; ii) payment made; iii) house value; iv) outstanding loan balance; v) days of delinquency; vi) loan denomination; and vii) file documentation. The total amount to reserve for each assessed loan is the result of multiplying the probability of default by the loss severity and exposure to default.

The risk grades and percentages of allowance for loan losses as of December 31, 2020 and 2019, are shown as follows:

Grade of risk	Range of allowance percentage	
A1	0.000%	0.50%
A2	0.501%	0.75%
B1	0.751%	1.00%
B2	1.001%	1.50%
B3	1.501%	2.00%
C1	2.001%	5.00%
C2	5.001%	10.00%
D	10.001%	40.00%
E	40.001%	100.00%

Non revolving consumer loans portfolio

The methodology followed to determine the allowance for the non-revolving consumer loans portfolio is described in articles 91 and 92 of the Provisions. The total allowance amount for each loan is the result of multiplying the probability of default by the loss severity and exposure to default.

The risk grades and percentages of allowance for loan losses as of December 31, 2020 and 2019, are shown as follows:

Grade of risk	Range of allowance percentage	
A1	0.000%	2.0%
A2	2.01%	3.00%
B1	3.01%	4.00%
B2	4.01%	5.00%
B3	5.01%	6.00%
C1	6.01%	8.00%
C2	8.01%	15.00%
D	15.01%	35.00%
E	35.01%	100.00%

Impaired loan portfolio– For consolidated financial statement disclosure purposes, the Institution considers as impaired loans, those commercial loans for which it determines that there is a considerable probability that they could not be recovered in full, without excluding improvements in risk levels resulting from the secured portion of the loan, or loans that, although current, result from negotiations in which a forgiveness, reduction or settlement was authorized at the end of the agreed-upon term.

Additional identified reserves– Are established for those loans, which in management's opinion, may give cause for concern in the future given the particular situation of the customer, the industry or the economy. Furthermore, it includes estimates for items such as normal interest earned but not collected and other items whose realization is considered to result in a loss to the Institution, as well as reserves maintained for guarantees granted.

k. Other accounts receivable

Loans to officers and employees, collection rights and the accounts receivable related to debts whose maturity is agreed from origin to a more than-90-calendar-day term are assessed by the Institution's management to determine the estimated recoverable amount and, as required, to create the corresponding allowance. The balances of other debit items are recorded into the statements of income 90 days after their initial recording, if they correspond to identified items and 60 days if the balances are unidentified, regardless of their chance of recovery, except for tax-related (VAT included) balances.

With regards to clearing accounts, in the case where the amount receivable is not settled within 90 calendar days from the record in clearing accounts, it is recorded as past due and an allowance for un-recoverability or doubtful account is recorded for the total amount.

l. Foreclosed assets or assets received in lieu of payment

Foreclosed assets are recorded on the date the admission order of the judicial sale by which the foreclosure was decreed, became final and conclusive and is immediately available for execution.

Assets received in lieu of payment are recorded on the date the deed of payment, or that on which the transfer of title to the asset is formally executed.

The accounting recognition of a foreclosed assets considers the value of the tangible asset (at the lower of cost or fair value less strictly necessary costs and expenses incurred for foreclosure), as well as the net value of the asset arising the foreclosure. When the net value of the asset arising, the foreclosure exceeds the value of the foreclosed asset, the loss is recognized in the consolidated statements of income caption "Other operating income (loss)". Otherwise, the value of the foreclosed asset is adjusted to the net value of the asset.

The value of the asset originating the foreclosure and the relevant allowance for loan loss set up as of that date are derecognized from the consolidated balance sheets.

Foreclosed assets and promised for sale are restricted to their carrying value; collections received on account of the asset are recorded as a liability. On the date of sale, the resulting gain or loss is recognized in the consolidated statements of income caption "Other operating income (loss)".

Foreclosed assets are valued according to the type of assets they represent, recording said valuation (reductions in the value) in the consolidated statements of income caption "Other operating income (loss)". The Institution creates additional provisions that acknowledge signs of impairment from potential value losses over time in foreclosed assets in the year's results of operations under "Other operating income (loss)", which are determined by multiplying the reserve percentage applicable by the value of the foreclosed assets, based on the provisions of foreclosed assets or assets received in payment methodology of the Banking Commission, as follows:

	Reserve percentage	
Months elapsed from the date of foreclosure or received in lieu of payment	**Real estate**	**Receivables, furniture, and equipment and investment securities**
Over 6	0%	0%
More than 6 to 12	0%	10%
More than 12 to 18	10%	20%
More than 18 to 24	10%	45%
More than 24 to 30	15%	60%
More than 30 to 36	25%	100%
More than 36 to 42	30%	100%
More than 42 to 48	35%	100%
More than 48 to 54	40%	100%
More than 54 to 60	50%	100%
More than 60	100%	100%

m. Property and equipment

Property and equipment are recorded at acquisition cost. Those assets acquired before December 31, 2007 were adjusted using factors based on the UDI value from the date of acquisition through that date, with recognition of the effects of inflation on the financial information that was suspended according to the MFRS.

Depreciation is calculated using the straight-line method, based on the estimated useful lives by the Institution's management of the corresponding assets.

Depreciation amount of property and equipment is determined by subtracting the residual value and, as applicable, the cumulative impairment losses from the acquisition cost. The Institution periodically evaluates property and equipment residual values to determine amounts to be depreciated.

The Institution evaluates periodically the net book values of property and equipment, to determine whether there is an indication that these values exceed their recoverable amount. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net revenues expected to be generated by the asset. If the net book value of an asset exceeds its recoverable amount, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

n. Permanent investments

The permanent investments where there is no control, joint control or significant influence are classified as other investments, which are initially recognized and maintained valued at acquisition cost. Dividends, if any, received from these investments are recognized in consolidated statements of income caption "Other operating income (loss)", except if are from prior periods to the acquisition, in which case are decreased from the permanent investment.

o. Other assets

This caption includes mainly prepaid expenses and commissions as well as guarantee deposits, which are recognized as an asset on the trade date considering economic future benefits for the Institution.

In case of any indication of impairment, the potential impairment loss is determined, and if the net carrying value exceeds the recoverable amount, the asset value is written down and the impairment loss is recognized in the results of operations for the year.

p. Income taxes and employee statutory profit sharing (ESPS)

The income taxes and ESPS payable for the year are determined in conformity with the applicable tax provisions.

Income taxes payable are presented as liability in the consolidated balance sheets; when the tax prepayments exceed the income tax payable, the difference corresponds to an account receivable.

Deferred income taxes and deferred ESPS are accounted for under the asset and liability method. Deferred taxes and ESPS assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and in the case of Income Tax (IT) for operating loss carryforwards. Deferred tax and ESPS 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 ESPS and taxes assets and liabilities of a change in tax rates is recognized in results of operations for the period enacted.

The deferred income tax asset is periodically estimated creating, where appropriate, valuation allowance for those temporary differences which might exist an uncertain recovery.

Current and deferred income taxes and ESPS are presented and classified in the results of the period, except those that originate from a transaction that is recognized in the OCI or directly in a caption of stockholders' equity.

Current and deferred ESPS is presented in the caption "Administrative and promotion expenses", in the consolidated statements of income.

q. Deposit funding

This caption comprises time deposits of the money market funding, the placement of debt certificates and bank bonds in the country or abroad. Interest is charged to expense on an accruals basis under "Interest expense". For instruments sold at a value different from their face value, the difference is recognized as a deferred charge or credit and amortized on a straight-line basis over the term of the respective instrument.

r. Provisions

Based on management's estimates, the Institution recognizes accruals for present obligations where the transfer of assets or the rendering of services is probable and arises because of past events.

s. Bank and other borrowings

Bank and other borrowings comprise short and long-term loans from domestic and foreign banks, which are recorded based on the contractual value of the obligation. Interest is recognized on accruals basis under the caption "Interest expense".

t. Employee benefits

Short-term direct benefits

Short-term direct employee benefits are recognized in income for the period in which the services rendered are accrued. A liability is recognized for the amount expected to be paid if the Institution has a legal or assumed obligation to pay this amount as a result of past services provided and the obligation can be reasonably estimated.

Long-term direct benefits

The Institution's net obligation in relation to direct long-term benefits (except for deferred ESPS- see note income taxes and employee statutory profit sharing), and which the Institution is expected to pay at least twelve months after the date of the most recent consolidated balance sheet presented, is the amount of future benefits that employees have obtained in exchange for their service in the current and previous periods. This benefit is discounted to its present value.

Termination benefits

A liability is recognized for termination benefits along with a cost or expense when the Institution has no realistic alternative other than to make the corresponding payments or when the offer of these benefits cannot be withdrawn or when the conditions that require the recognition of restructuring costs are met, whichever occurs first. If benefits are not expected to be settled wholly within twelve months after the date of the most recent balance sheet presented, then they are discounted.

Defined benefit plans

In addition, the Institution has a defined benefit plan in place that covers the pensions for retirement, the seniority premiums and legal compensation to which employees are entitled in accordance with the Federal Labor Law, as well as obligations related to corresponding to plans medical benefits, and life insurance for retirees.

Irrevocable trusts have been established for all plans to manage the respective plan funds and assets.

The calculation of liabilities for defined benefit plans, held annually by actuaries using the projected unit credit method. When the calculation results in a possible asset to the Institution, recognized asset is limited to the present value of the economic benefits available in the form of future refunds from the plan or reductions in future contributions to it. To calculate the present value of the economic benefits, any minimum funding requirements should be considered.

The labor cost of current service, which represents the periodic cost of employee benefits for having completed one more year of working life based on the benefit plans, is recognized in administrative and promotional expenses. The Institution determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of estimates of contributions and benefit payments.

Modifications to the plans that affect past service cost are recognized in income immediately in the year the modification occurs, with no possibility of deferral in subsequent years. Furthermore, the effects of events of liquidation or reduction of obligations in the period that significantly reduce future service cost and/or significantly reduce the population eligible for benefits, are recognized in income (loss) for the period.

Remeasurements generated as from January 1, 2016 (before actuarial gains and losses) resulting from differences between the projected and actual actuarial assumptions at the end of the period, are recognized when incurred as part of OCI within stockholders' equity and is subsequently recycled to the results of the period, based on the average remaining working life of the employees.

According to the resolution published on December 31, 2015 by the Banking Commission, modifications to the plans and remeasurements accumulated until December 31, 2015, are gradually recognized from 2021 to the next four years, recognizing 20% from its initial application and 20% in each of the subsequent years.

u. Revenue recognition

Interest on loans granted including the interbank loans fixed to a term less than or equal to three business days, is recorded in income as earned. Interest on past-due loans is recognized in income upon collection.

The interest collected in advance and loan origination fees are recorded within "Deferred credits and prepayments", and applied to the year's results of operations in "Interest income" and "Commission and fee income", respectively, as accrued, in the term of the loan or during a year, as applicable.

The commissions from assets in custody or under management are recognized in income when the services rendered in "Commission and fees income".

Fees on trust transactions are recognized in income as accrued in "Commission and fees income". Such revenues are not accrued when fees are 90 or more calendar days past due, and are recorded in memorandum accounts. When accrued revenues are collected, they are recorded directly in income for the year.

Fees for restructured or renewed loans are recorded as deferred credits and amortized against the results of operations for the year in "Interest income" using the straight-line method during the new term of the loan.

Commissions from intermediation by the Institution between the lender and the borrower for the contracting of loans on the markets, are recorded in the consolidated statements of income as the service is provided under the caption "Commission and fees income".

v. Foreign currency transactions

Foreign currency transactions are recognized at the exchange rate prevailing on the date of execution, for consolidated financial statements presentation purposes. In the cases of currencies other than dollars are translated into dollars at the exchange rates as established in the Provisions, and the dollar equivalent, together with dollar balances, are then translated into Mexican pesos using the exchange rate determined by the Central Bank.

At the year-end close date of the consolidated financial statements, foreign currency monetary assets and liabilities are translated into pesos at the FIX exchange rate published by Central Bank, while foreign exchange gains or losses arising from foreign currency translation are recorded in the results of operations for the originating period.

w. Memorandum accounts

Memorandum accounts corresponds mainly to assets in custody or management and trust transactions.

Customer's securities held in custody, guarantee or under management, are recorded in the corresponding memorandum accounts in accordance with the accounting criteria established by the Banking Commission, and represent the maximum expected amount at which the Institution is obliged to respond to its customers.

The amounts of the assets in custody or under management are presented in the caption "Assets in custody or under management", while the trust transactions are presented in the caption "Assets in trust or under mandate".

x. Contingencies

Significant liabilities or losses related to contingencies are recorded when it is probable that their effect will realize and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, disclosure is provided in the notes to the consolidated financial statements. Contingent revenues, earnings or assets are not recognized until their realization is assured.

4. CHANGES IN ACCOUNTING POLICIES

a. Special 2020 accounting criteria

The Banking Commission temporarily issued the special accounting criteria through official letters P285/2020, P293/2020, and P325/2020, dated March 26, April 15, and June 23, 2020, respectively. Its objectives were to protect the economy of persons and companies that could have problems for covering their credits due to the economic impact of the COVID-19 pandemic, as well as strengthen the liquidity of families and companies, by enabling borrowers to be able to recover before reactivating their payments.

The foregoing allowed for restructuring or renewing consumer lending portfolio, as well as housing and trade portfolios performing as of March 31, 2020, in accordance with official letter P325/2020 (up to June 23, 2020. The date set was February 28, 2020, except for the microcredits, in accordance with official letter P293/2020), without affecting their credit record or the accrual of interest in arrears. Lending institutions were granted the facility of not recording restructured or renewed credits as non-performing portfolio, which gave rise to not increasing its reserves during the moratorium period. On July 31, 2020, the period expired for completing the restructuring or renewal formalities (up to June 23, 2020, the date set was June 26, 2020).

In this regard, on April 3, 2020, the Internal Credit Committee of NAFIN authorized the "General and Specific Guidelines for rescheduling amortizations of the borrowers of NAFIN in dealing with the circumstances caused by the SARS-CoV2 (COVID-19), as well as supporting measures" (The Guidelines), which were issued in compliance with accounting criterion B-6 "Loan Portfolio" (Criterion B-6) and they included the application of special accounting criteria issued by the Banking Commission, which primarily allows for deferring the payment of interest accrued as of the date of restructuring the credits. As of March 31, 2020, the special accounting criteria described above had not been applied and they began to be applied beginning the second quarter of 2020.

- The significant accounting criteria applied beginning April 2020 is described in detail below:

  i. *Credits with a single principal payment at maturity and periodic interest payments, as well as credits with a single principal and interest payment at maturity.*- The principal and/or interest payment upon maturity of credits was deferred for a period not exceeding 6 months, beginning the date on which they would have matured, recorded as performing portfolio as of February 28, 2020, in accordance with official letter P285/2020 and as of March 31, 2020, in accordance with official letter P325/2020, and concluding the restructuring formalities no later than 120 calendar days after the referred to above. In conformity with the special accounting criteria, they were considered as performing portfolio since the Provisions set forth in paragraph 79 of accounting criterion B-6 were not applied. Those Provisions set forth that when these credits are renewed at any time, they will be considered as nonperforming portfolio, since there is no evidence of sustained payment as of the restructuring date.

ii. *Credits with periodic principal and interest payments.*- The credits that were restructured with a term to maturity not exceeding 6 months beginning the date on which they would have matured, recorded as performing portfolio as of February 28, 2020, in accordance with official letter P285/2020 and as of March 31, 2020, in accordance with official letter P325/2020, and completing the restructuring formalities no later than 120 calendar days after the date referred to above. In conformity with the special accounting criteria, they were considered as performing portfolio since the Provisions set forth in paragraphs 82 and 84 of accounting criterion B-6 were not applied, which set forth the following for this type of credits:

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

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

iii. *Credits whose revolving character is stipulated since their inception.*- The credits that were restructured or renewed within 120 calendar days subsequent to February 28, 2020, in accordance with official letter P285/2020 and as of March 31, 2020, in accordance with official letter P325/2020 were not considered as a performing portfolio in terms of the Provisions of paragraph 80 of accounting criterion B-6, which requires that the borrower should have:

- Liquidated the total interest due and payable; and

- Covered the total payments to which the borrower is bound, in terms of the agreement as of the restructuring or renewal date.

These three types of credits were not considered as restructured credits, in accordance with the Provisions of paragraph 40 of accounting criterion B-6, nor were they reported as nonperforming credits with credit information companies.

With regard to the cases in which the accounting criteria were applied, it is important to note that the Institution did not modify the original conditions set forth in paragraphs 40 and 89 of accounting criterion B-6, which has not implied total or partial deferment of the principal and/or interest.

The Guidelines authorized by the Internal Credit Committee at the Institution considered the special accounting criteria issued by the Commission. In addition, restructurings were carried out in compliance with criterion B-6; therefore, the main rescheduling were carried out in accordance with the accounting standard in effect.

As discussed above, the application of the special accounting criteria issued by the CNBV were considered in the Guidelines, which mainly allowed for deferring the payment of accrued interest as of the date of the restructuring.

The application of special accounting criteria in the case of the guarantee Program is described in detail below:

i. The Institution authorized financial brokers to extend the original date of maturity of the secured credits up to 6 months, arising from the partial or total deferment of the capital payment or capital and interest payment granted to its borrowers,

ii. Defer the collection of fees to financial brokers for up to 6 months, exclusively when those brokers grant their borrowers the benefit of deferring the capital and interest payment on the proportionate part of each portfolio corresponding to the credits that receive such a benefit; and

iii. Extend the maximum guarantee period granted to revolving credits up to 6 months in those credits that receive the benefit of deferred payments.

The special accounting criteria in the rescheduling of credits had not been applied in the first quarter of the year. The rescheduling of credits of the second quarter in reliance on the special accounting criteria were reported to the Banking Commission, in compliance with official letters 122-2/4951/2020 through biweekly reports, 122-2/4975/2020 with monthly reports, and 122-2/5021/2020 with weekly reports. The balances of credits as of December 31, 2020 that were supported in the application of the special accounting criteria are summarized as follows:

Rescheduled credits in reliance on the special accounting criteria

Commercial portfolio (local currency)		
First tier	**$**	**919**
Second tier		**3,261**
Total Commercial portfolio (local currency)	**$**	**4,180**
Commercial portfolio (foreign currency)		
First tier	**$**	**2,364**
Second tier		**2,195**
Total Commercial portfolio (foreign currency)	**$**	**4,559**
Total Portfolio	**$**	**8,739**

Guarantees with COVID support

		2020
Automatic	**$**	**28,632**
Selective		**635**
Total	**$**	**29,267**

It is important to note that the rescheduling of these borrowers was carried out to support the liquidity of those who required it as such; therefore, had the special accounting criteria not existed, the payment of accrued interest would have been required as of the restructuring date, in compliance with criterion B-6, thereby maintaining the portfolio as performing.

Pursuant to the foregoing, had the special accounting criterion not been applied, the portfolio would not have migrated to nonperforming portfolio; therefore, the balance sheet would not have been affected by this item.

However, even when the special accounting criterion allows the reserves not to be increased during the moratorium period, the Institution prudentially determined that the reserves of borrowers who received support be increased, either based on accounting criterion B-6 or on special accounting criteria. Due to the foregoing, additional reserves were created in the amount of $107, with regard to the restructured portfolio based on the special accounting criteria. That reserve is included in the balance sheet item of allowance for loan losses as of December 31, 2020, and in the statement of income for the year ended December 31, 2020.

The effect of these prudential credit reserves in the ICAP as of December 31, 2020 is 4.1 base points; therefore, the ICAP to date reasonably reflects its level of capitalization. (Unaudited).

A credit that was classified in the nonperforming portfolio and provided for at 100% with a balance amounting to $528 as of December 31, 2020, was restructured under accounting criterion B-6.

On the other hand, the Board of Directors approved the implementation of the support scheme named "COVID Regulatory Facilities" at the meeting held on December 1, 2020, related to restructurings or renewals for the borrowers of NAFIN of credit and guarantees, as well as for the former employee portfolio, who were affected by the COVID-19 pandemic, based on the terms and conditions referred to in official letters P417/2020 "Official letter of facilities on restructurings and renewals", and P418/2020 "Official letter on capital, and reserves", and their respective scopes, issued by the Banking Commission.

The deadline for formalizing restructurings under "COVID Regulatory Facilities" was on January 31, 2021. As of December 31, 2020, restructurings were not recorded in reliance on this scheme.

As of December 31, 2020, the application of special accounting criteria gave rise to the need to stop recognizing amounts for capitalizations and interest in the accounting records, both balance sheet and income accounts, respectively, in accordance with the following:

Type of portfolio	Capital	Interests
First tier and lines of credit	$ 594	$ 43
Second tier Bank Financial Brokers and others	185	-
Total	$ 779	$ 43

b. Accounting criteria 2019

During 2019 there were no changes in accounting policies.

5. FOREIGN CURRENCY POSITION

Central Bank regulations require that banks maintain balanced positions in foreign currencies within certain limits. The short or long position permitted by the Central Bank is equal to a maximum of 15% of the basic capital computed as of the third immediately preceding quarter. Therefore, as of December 31, 2020 and 2019, the Institution's position is within the authorized limits. The foreign currency position of Nacional Financiera, S.N.C. Institución de Banca de Desarrollo not consolidated, is analyzed as follows:

	Dollars		**Equivalent in pesos**	
	2020	2019	**2020**	2019
Assets	**5,360**	5,432	**106,698**	102,475
Liabilities	**(5,392)**	(5,428)	**(107,332)**	(102,407)
Long (short) position	**(32)**	4	**(634)**	68

As of December 31, 2020 and 2019, the assets and liabilities in millions of foreign currency of local currency and valued balances are shown below:

	2020			2019		
	Assets	**Liabilities**	**Net position**	Assets	Liabilities	Net position
USD Dollar	**5,081**	**(5,120)**	**(39)**	5,164	(5,168)	(4)
Japanese Yen	**25,047**	**(25,038)**	**9**	25,046	(25,037)	9
Euros	**23**	**(17)**	**6**	26	(20)	6
Sterling pounds	**6**	**(6)**	**0**	6	(5)	1

As of December 31, 2020 and 2019, the assets and liabilities in foreign currencies translated to pesos are shown below:

	2020			2019		
	Assets	**Liabilities**	**Net position**	Assets	Liabilities	Net position
USD dollars	**$ 101,149**	**$ (101,942)**	**$ (793)**	$ 97,415	$ (97,494)	$ (79)
Japanese Yen	**4,831**	**(4,829)**	**2**	4,348	(4,347)	1
Euros	**559**	**(410)**	**149**	556	(433)	123
Sterling pounds	**157**	**(151)**	**6**	149	(133)	16
French Francs	**2**	**-**	**2**	7	-	7
	$ 106,698	**$ (107,332)**	**$ (634)**	$ 102,475	$ (102,407)	$ 68

The exchange rate relative to the US dollar as of December 31, 2020 and 2019, was $19.9087 and $18.8642, pesos per dollar, respectively, and on the issuance date of the consolidated financial statements, it was $20.85 pesos per dollar.

6. CASH AND CASH EQUIVALENTS

As of December 31, 2020 and 2019, cash and cash equivalents are analyzed as follows:

	2020	2019
Domestic and foreign Banks	**$ 10,261**	$ 8,504
24 and 48 hours foreign currency sales	**-**	(2,742)
Other cash and cash equivalents (notes receivable)	**1**	1
Restricted funds:		
Call money	**29,426**	12,004
Other availabilities	**32,534**	21,037
Deposits with the central bank	**4,577**	13,089
24, 48 and 72 hours foreign currency purchase	**-**	9,910
	$ 76,799	$ 61,803

As of December 31, 2020 and 2019, deposits at the Central Bank correspond to monetary regulation which have no maturity. The interest generated by deposits in the Central Bank as of December 31, 2020 and 2019, were $513 and $1,071, respectively. The Provisions in force issued by the Central Bank for monetary regulation deposits set that may be comprised of cash, securities, or both. As of December 31, 2020 and 2019, the Institution had the following call money:

	2020		
	Amount	**Annual rate**	**Annual term**
Banco de México	**$ 23,132**	**4.25%**	**4 days**
Banobras	**6,000**	**4.26%**	**4 days**
Sociedad Hipotecaria Federal, S.N.C.	**294**	**0.15%**	**4 days**
	$ 29,426		

	2019		
	Amount	Annual rate	Annual term
Banco de México	$ 9,712	7.25%	2 days
Banobras	1,000	7.25%	2 days
JP Morgan Inversiones	900	7.25%	2 days
Sociedad Hipotecaria Federal, S.N.C.	392	1.66%	2 days
	$ 12,004		

As of December 31, 2020 and 2019, foreign currency receivable and deliverable equivalent in pesos in connection with the purchases and sales to be settled within 24, 48 and 72 hours were negotiated in USD dollars.

The offset balance of foreign currency receivables with foreign currency deliverables as of December 31, 2020, shows a net credit balance, and it is presented in the item of the liability "Other liabilities and other payables".

The other liquid assets have a period of up to one hundred and eighty days. The balance as of December 31, 2020, amounts to $26,061 and $6,474 and it matures in the first and second quarter of 2021, respectively. The balance as of December 31, 2019, amounts to $21,037 and matures in the first quarter of 2020.

As of December 31, 2020 and 2019, cash and cash equivalent in foreign currency are as follows:

	2020		
	Millions of local currency	**Exchange rate**	**Equivalent in pesos**
USD Dollars	**2,138**	**$ 19.9087**	**$ 42,571**
Euros	**7**	**24.3563**	**161**
Sterling pounds	**0**	**27.2033**	**12**
			$ 42,744

	2019		
	Millions of local currency	Exchange rate	Equivalent in pesos
USD Dollars	1,650	$ 18.8642	$ 31,128
Euros	1	21.1751	15
Sterling pounds	1	24.9838	16
Swiss Francs	-	19.4792	1
			$ 31,160

7. INVESTMENT SECURITIES

As of December 31, 2020 and 2019, investment securities at fair value, except held to maturity, are analyzed as follows:

Trading

	2020			
	Acquisition cost	**Accrued interest**	**Valuation**	**Book value**
Unrestricted:				
Shares of Fondo de Desarrollo del Marcado de Valores (FDMV)	**$ 68**	**$ -**	**$ (38)**	**$ 30**
Bonds	**4,824**	**6**	**7**	**4,837**
Certificates	**7,356**	**16**	**(11)**	**7,361**
CETES	**2,264**	**3**	**1**	**2,268**
Bank promissory notes	**1,400**	**-**	**-**	**1,400**
Restricted:				
Bonds	**110,439**	**-**	**80**	**110,519**
Certificates	**17,644**	**-**	**10**	**17,654**
CETES	**435**	**-**	**-**	**435**
Ipabonos	**79,239**	**3**	**55**	**79,297**
Bank promissory notes	**237**	**1**	**-**	**238**
Equity investments	**9**	**-**	**-**	**9**
	$ 223,915	**$ 29**	**$ 104**	**$ 224,048**

	2019			
	Acquisition cost	Accrued interest	Valuation	Book value
Unrestricted:				
Shares of Fondo de Desarrollo del Mercado de Valores (FDMV)	$ 296	$ -	$ (5)	$ 291
Bonds	2,374	5	3	2,382
Certificates	7,639	24	-	7,663
CETES	373	3	-	376
Ipabonos	3,042	-	(3)	3,039
Bank promissory notes	2,000	-	-	2,000
Restricted:				
Bonds	99,089	11	163	99,263
Certificates	19,427	-	84	19,511
Ipabonos	69,190	19	107	69,316
Bank promissory notes	7,023	-	-	7,023
Equity investments	260	-	-	260
	$ 210,713	$ 62	$ 349	$ 211,124

Available for sale

	2020			
	Acquisition cost	**Accrued interest**	**Valuation**	**Book value**
Sovereign debt	**$ 2,768**	**$ 31**	**$ 358**	**$ 3,157**
Bonds issued by lending institutions	**440**	**3**	**42**	**485**
Debentures and other securities	**3,985**	**77**	**128**	**4,190**
Equity investments	**8,325**	**-**	**1,296**	**9,621**
	$ 15,518	**$ 111**	**$ 1,824**	**$ 17,453**

	2019			
	Acquisition cost	Accrued interest	Valuation	Book Value
Sovereign debt	$ 2,393	$ 33	$ 163	$ 2,589
Bonds issued by lending institutions	417	3	22	442
Debentures and other securities	3,846	66	132	4,044
Equity investments	7,713	-	1,734	9,447
	$ 14,369	$ 102	$ 2,051	$ 16,522

Held-to-maturity:

	2020		
	Acquisition cost	**Accrued interest**	**Book value**
Unrestricted:			
Certificates	**$ 545**	**$ 69**	**$ 614**
Segregable certificates	**2,658**	**1,551**	**4,209**
Sovereign debt	**111**	**2**	**113**
Udibonos	**50**	**28**	**78**
Restricted:			
Segregable certificates	**5,075**	**2,974**	**8,049**
	$ 8,439	**$ 4,624**	**$ 13,063**

	2019		
	Acquisition cost	Accrued interest	Book Value
Unrestricted:			
Convertible prides bonds	$ 5	$ -	$ 5
Certificates	569	61	630
Segregable certificates	4,218	2,253	6,471
Sovereign debt	226	5	231
Udibonos	50	25	75
Restricted:			
Segregable certificates	3,667	1,963	5,630
	$ 8,735	$ 4,307	$ 13,042

An analysis by maturity term of the integration of securities for trading purposes, considering the acquisition cost and classification by category is shown below:

Trading

	2020				
	Less than a month	**Between one and three months**	**More than three months**	**Without term**	**Total**
Unrestricted:					
Shares of Fondo de Desarrollo del Mercado de Valores (FDMV)	**$ -**	**$ -**	**$ -**	**$ 68**	**$ 68**
Bonds	**-**	**2,531**	**2,293**	**-**	**4,824**
Certificates	**1**	**50**	**7,305**	**-**	**7,356**
CETES	**123**	**46**	**2,095**	**-**	**2,264**
Bank promissory notes	**1,400**	**-**	**-**	**-**	**1,400**
Restricted:					
Bonds	**-**	**3,523**	**106,916**	**-**	**110,439**
Certificates	**-**	**335**	**17,309**	**-**	**17,644**
CETES	**-**	**-**	**435**	**-**	**435**
Ipabonos			**79,239**	**-**	**79,239**
Bank promissory notes	**237**	**-**	**-**	**-**	**237**
Equity investments	**-**	**-**	**-**	**9**	**9**
	$ 1,761	**$ 6,485**	**$ 215,592**	**$ 77**	**$ 223,915**

	2019				
	Less than a month	Between one and three months	More than three months	Without term	Total
Unrestricted:					
Shares of Fondo de Desarrollo del Mercado de Valores (FDMV)	$ -	$ -	$ -	$ 296	$ 296
Bonds	1	-	2,373	-	2,374
Certificates	1	298	7,340	-	7,639
CETES	315	36	22	-	373
Ipabonos	2,741	55	246	-	3,042
Bank promissory notes	2,000	-	-	-	2,000
Restricted securities:					
Bonds	-	-	99,089	-	99,089
Certificates	-	1,443	17,984	-	19,427
Ipabonos	3,163	-	66,027	-	69,190
Bank promissory notes	7,023	-	-	-	7,023
Equity investments	260	-	-	-	260
	$ 15,504	$ 1,832	$ 193,081	$ 296	$ 210,713

Available for sale

	2020		
	Less than one year	**More than one year**	**Total**
Sovereign debt	**$ -**	**$ 2,768**	**$ 2,768**
Bonds issued by lending institutions	**-**	**440**	**440**
Debentures and other securities	**495**	**3,490**	**3,985**
Securities issued from abroad	**-**	**8,325**	**8,325**
	$ 495	**$ 15,023**	**$ 15,518**

	2019		
	Less than one year	More than one year	Total
Sovereign debt	$ -	$ 2,393	$ 2,393
Bonds issued by lending institutions	417	-	417
Debentures and other securities	86	3,760	3,846
Securities issued from abroad	-	7,713	7,713
	$ 503	$ 13,866	$ 14,369

Held-to-maturity:

	2020		
	Less than one year	**More than one year**	**Total**
Unrestricted:			
Certificates	**$ -**	**$ 545**	**$ 545**
Segregable certificates	**-**	**2,658**	**2,658**
Sovereign debt	**-**	**111**	**111**
Udibonos	**-**	**50**	**50**
Restricted:			
Segregable certificates	**1,757**	**3,318**	**5,075**
	$ 1,757	**$ 6,682**	**$ 8,439**

	2019		
	Less than one year	More than one year	Total
Unrestricted:			
Convertible prides bonds	$ -	$ 5	$ 5
Certificates	-	569	569
Segregable certificates	-	4,218	4,218
Sovereign debt	-	226	226
Udibonos	-	50	50
Restricted:			
Segregable certificates	-	3,667	3,667
	$ -	$ 8,735	$ 8,735

As of December 31, 2019, the Institution does not maintain obligations and securities with a maturity of less than one year.

The valuation result from available for sale securities as of December 31, 2020 and 2019 recognized in Other Comprehensive Income within stockholders' equity amounted to $(74) and $5, net of deferred income tax, respectively.

For the years ended December 31, 2020 and 2019, net gains from interest income, trading income and valuation (loss) gain from investments securities are as follows:

		2020		2019
Interest income	**$**	**1,635**	$	2,657
Valuation (loss) gain		**(460)**		39
Trading income		**906**		626
	$	**2,081**	$	3,322

For the years ended December 31, 2020 and 2019, the Institution has not made reclassifications from held to maturity to available for sale, or from trading securities to available for sale.

Issuers over 5% of Institution's net capital-

As of December 31, 2020 and 2019, investments in non-governmental debt securities of the same issuer and exceeding 5% of the Institution's net capital are analyzed below:

2020

Issuer	**Serie**	**Number of securities**	**Annual average rate**	**Average term**	**Amount**
FEFA	**Various**	**240,218,200**	**4.85%**	**778**	**$ 24,092**
PEMEX USD	**Various**	**1,318,562**	**5.93%**	**2,882**	**2,804**
PEMEX EUR	**Various**	**4,500**	**2.96%**	**645**	**114**
PEMEX GBP	**Various**	**5,000**	**3.75%**	**1,462**	**129**

2019

Issuer	Serie	Number of securities	Annual average rate	Average term	Amount
FEFA	Various	244,941,153	8.06%	1,117	$ 24,579
IBANOBRA	Various	9,044,171,114	7.27%	7	9,023
SHF	Various	17,150,000	6.29%	231	1,711
PEMEX USD	Various	148,313	5.79%	2,374	2,749
PEMEX EUR	Various	7,000	3.01%	1,499	153
PEMEX GBP	Various	5,000	3.75%	1,828	128

8. REPURCHASE/RESELL AGREEMENTS

As of December 31, 2020 and 2019, the "Debtors on repurchase/resell agreements" and "Creditors on repurchase/resell agreements" balances in which the Institution acts as buyer or as seller, are analyzed as follows:

	Debtors on repurchase/resell agreements		Creditors on repurchase/resell agreements	
	2020	2019	**2020**	2019
Government securities				
Udibonos	$ -	$ -	$ -	$ (381)
Segregable certificates	**400**	484	**(8,634)**	(5,659)
Bonds	-	10,000	**(982)**	(210)
Fix rate bonds	-	22,334	**(109,457)**	(98,508)
Ipabonos	-	9,366	**(107,583)**	(69,207)
CETES	**2,880**	1,750	**(435)**	-
UMS Gobierno Federal	-	-	**(2,912)**	-
	$ 3,280	$ 43,934	**$ (230,003)**	$ (173,965)
Banking securities				
CEDES	-	5,897	-	(1,496)
Bank promissory notes	-	-	-	(7,023)
Subtotal	-	5,897	-	(8,519)
Other debt securities				
Certificates	-	3,550	**(17,645)**	(17,934)
Subtotal	**3,280**	53,381	**(247,648)**	(200,418)
Collateral sold or pledged as a guarantee (creditors)				
Government securities				
Segregables certificates	-	(484)	-	-
Fix rate bonds	**(400)**	(10,000)	-	-
Bonds	-	(22,334)	-	-
Ipabonos	-	(9,366)	-	-
CETES	**(2,700)**	-	-	-
Other debt securities				
Certificates	-	(1,647)	-	-
Subtotal	**(3,100)**	(43,831)	-	-
	$ 180	$ 9,550	**$ (247,648)**	$ (200,418)

9. DERIVATIVES

As of December 31, 2020 and 2019, the fair value of derivative financial instruments for trading and hedging purposes, recognized under the caption "Derivatives", is analyzed as follows:

	2020 Position		2019 Position	
	Assets	**Liabilities**	Assets	Liabilities
Trading purposes:				
Swaps	**$ 5,911**	**$ (5,974)**	$ 1,870	$ (1,899)
Hedging purposes:				
Swaps	**$ 3,461**	**$ (8,147)**	$ 1,461	$ (5,795)

The Institution participates in the Mexican Derivatives Market (MEXDER), through trading shares, CPI, interest rates and currency futures, and interest rate and currency swaps in accordance with the authorization granted by the Central Bank.

In the case of over-the-counter dollar-peso forwards, the master agreement does not establish maintaining guarantees, instead it does apply penalties on the nonperforming counter party. The exchange and interest rates futures and forward contracts carried out by the Institution are oriented to obtain earnings for the Institution.

In the case of dollar-peso forward for trading purposes, the fair value represents the amount that two parties agree to exchange, based on sources of information that affect the prices of these operations.

The Institution through the Risk Management Committee performs various analyses on underlying markets for derivative instruments that are traded in order to identify and assess the inherent risks. Operations with futures and forward contracts, involve recovery risks. To reduce the risks in the operation of these instruments, the Institution maintains matched positions.

	2020	2019
Futures and forward contracts		
Purchases		
Contract value	$ -	$ 7,539
Deliverable	$ -	$ (7,557)
Valuation	$ -	$ (18)

Swaps trading purposes:

	2020			2019		
Interest rate	**Contract value**	**Receivable**	**Deliverable**	Contract value	Receivable	Deliverable
	$ 201,500	$ 5,911	$ 5,974	$147,592	$ 1,870	$ 1,899

Swaps hedging purposes:

	2020			2019		
Interest rate	**Contract value**	**Receivable**	**Deliverable**	Contract value	Receivable	Deliverable
	$ 72,031	$ 3,461	$ 8,147	$ 94,004	$ 1,461	$ 5,795

As of December 31, 2020 and 2019, hedge effectiveness/ineffectiveness derived from the application of the B-5 criterion "Derivatives and hedging transactions" of the Banking Commission, is detailed below:

The net effect of the valuation of the hedged position and the fair value hedge Swaps (with impact in statements of income):

	2020	2019
Ineffectiveness for:		
Deposit funding hedging	$ (118)	$ (36)
Investments hedging	(3)	(49)
Loan portfolio	(15)	-
Total	$ (136)	$ (85)

As of December 31, 2020 and 2019, the Institution has only contracted fair value hedge swaps.

Trading Swaps (with impact in statements of income):

	2020	2019
Interest rate	$ (63)	$ (29)

The adjustments to the book value arising from interest rate hedges derivative transactions on financial assets and liabilities, due to the application of the criterion B-5 "Derivatives and hedging transactions" of the Banking Commission, as of December 31, 2020 and 2019, are detailed below:

	2020		2019	
	Asset	**Liability**	Asset	Liability
Deposit funding hedging	$ 833	$ (3,426)	$ 602	$ 165
Investments hedging	890	(708)	256	(273)
Loan portfolio hedging	3,211	(16)	1,303	35
Total	$ 4,934	$ (4,150)	$ 2,161	$ (73)

The net gain, for the years ended December 31, 2020 and 2019, recognized in the consolidated statements of income derived from the valuation of instruments used for fair value hedging purposes, amounted to $1,048 and $2,644, respectively. The effect of the gain (loss) related to the valuation of the effective hedge portion for the year ended December 31, 2020 and 2019 amounted to $1,099 and $(2,712), respectively.

Use of derivative financial instruments policy management (unaudited)-

The Institution's policies allow the use of derivative instruments for hedging and trading purposes. The main objectives of the operation of these instruments is risk hedging and the generation of revenues that support the Institution's profitability.

The establishment of objectives and policies related to the operation of these instruments are included in the Risk Management regulatory and operational manuals.

Derivative financial instruments used by the Institution are interest rate and currency swaps, CPI and interest rate futures, as well as exchange rate forwards, which, according to the portfolio, can support hedging and trading strategies.

Derivative financial instruments are traded in over-the-counter markets and recognized stock markets. Eligible counterparties for the OTC derivatives are mainly domestic and foreign banks, whereas for derivatives traded in stock markets, the counterparty is the clearing house.

Processes and levels of authorization

Control processes, policies and levels of authorization for transactions with derivatives are set forth in the Integral Risk Management Committee (IRMC), whose duties include approval of:

- The specific limits for discretionary risks, when it has been empowered by the Board of Directors therefor, as well as the levels of tolerance in the case of non-discretionary risks.
- The methodology and procedures for identifying, measuring, overseeing, limiting, controlling, reporting and disclosing the different types of risk that the Institution is exposed to, as well as their eventual modifications.
- The models, parameters and scenarios that must be used to value, measure, and control the risks proposed by the Risk Management area, must concur with the Institution's technology.
- The methodologies for identifying, valuing, measuring and controlling the risks of the new operations, products, and services that the Institution plans to offer to the market.
- The corrective actions proposed by the Integral Risk Management area.

- The assessment of aspects of Integral Risk Management referred to in Article 77 of the Provisions for its presentation to the Board of Directors and the Banking Commission.
- The Integral Risk Management manuals, in accordance with the objectives, guidelines, and policies established by the Board of Directors, referred to in the last paragraph of Article 78 of the Provisions.

All the new products or services traded in relation with any line of business are approved by the Committee, in accordance with the powers granted by the Board of Directors.

Independent reviews

The Institution is under the supervision and monitoring of the Banking Commission and the Central Bank, which is performed through processes of monitoring, inspection visits, requirements of information and documentation, and delivery of reports. There are also periodic reviews by the internal and external auditors.

Generic description of valuation techniques

Derivative financial instruments are valued in accordance with the criterion B-5 "Derivatives and hedging transactions" issued by the Banking Commission.

Valuation methodology

- For derivatives with trading and hedging purposes– there is a structure of operating and regulatory manuals that set forth the valuation methodologies used.
- The reference inputs used in the valuation process are used by convention in the market practices (rates, exchange rates, prices, volatilities, etc.).
- The frequency of valuation of derivative financial instruments for trading purposes is daily.

Administration of internal and external sources of liquidity that could be used to meet requirements related to derivative financial instruments.

The resources are obtained through the National Treasury, as well as the International Treasury (London Branch).

Changes in identified risk exposure, contingencies and known or expected events in derivative financial instruments.

Stress tests and backtesting are performed on a regular basis to estimate the impact on derivatives instruments positions and to validate statistically that the market risk measurement models provide results consistent with the exposure to the market variability, which must be maintained within the parameters approved by the IRMC.

The methodology currently used for preparing stress measurement report, consists of calculating the current portfolio value, having ability to apply changes in risk factors occurring in:

- Tequila Effect (1994)
- Russian Crisis (1998)
- Twin Towers (2001)
- Mexican Stock Exchange Effect (2002)
- Effect on Real Interest Rate (2004)
- Mortgage Crisis Effect (2008)

- USA Elections effect (2016)
- COVID-19 effect (2020)

Backtesting tests are based on the daily generation of the following information:

- Valuation of the investment portfolio at day t.
- The VaR of the investment portfolio with a time horizon of 1 day and with a level of confidence of 97.5% (VaR).
- The portfolio valuation with the new risk factors at day t+1.

During 2020, the number of derivative financial instruments traded was the following:

Instrument		**Number of transactions**		**Notional**	
		Trading	**Hedging**	**Trading**	**Hedging**
Futures	**(1)**	**(595)**	-	**14,713**	-
Forwards (Arbitrations)	**(2)**	**175**	-	**642**	-
Swaps	**(3)**	**437**	**78**	**58,368**	**27,311**

(1) The number of transactions is equal to purchase transactions minus sales. Notional refers to number of contracts: 7,059 of purchase and 7,654 sales.

(2) Purchasing transactions. Notional in millions of US dollars.

(3) Notional amount traded during the year.

During 2019, the number of derivative financial instruments traded was the following:

Instrument		Number of transactions		Notional	
		Trading	Hedging	Trading	Hedging
Futures	(1)	(714)	-	4,740	-
Forwards (Arbitrations)	(2)	257	-	6,920	-
Swaps	(3)	-	55	-	13,091

(1) The number of transactions is equal to purchase transactions minus sales. Notional refers to number of contracts: 2,013 of purchase and 2,727 sales.

(2) Purchasing transactions. Notional in millions of US dollars.

(3) Notional amount traded during the year.

Formal documentation of hedges

In order to comply with the applicable regulations with respect to derivatives and hedging transactions (Criterion B-5 issued by the Banking Commission), the Institution has a hedge file that includes the information shown as follows:

I. File cover letter.

II. Authorization of the hedge.

III. Diagram of the strategy.

IV. Evidence of prospective tests of hedge effectiveness.

V. Evidence of execution of the derivative.

VI. Details of the primary position being hedged.

VII. Derivative confirmation.

Sensitivity analysis

A sensitivity analysis is performed through different measures every day, such as:

1) Duration.– There are primarily two types of duration with different meanings:
   a. Macaulay Duration: It is the weighted average maturity of the current cash flow values where weighting ratios are the time in years up to the payment of the corresponding flow.

   b. Modified Duration: It is the percentage variation experienced by the price of a bond in light of small variations in the market interest rate.

2) Convexity.– It is the variation experienced by the slope of a curve with respect to a dependent variable, i.e., it measures the variation experienced, by the duration when rates change.

3) Greeks.– Sensitivity measurements for options, except for interest rate options:
   a. Delta: Price Sensitivity for options at the price of the underlying of the option.

   b. Theta: Price Sensitivity of options to the time variable.

   c. Gamma: Third degree price sensitivity of the option to the underlying of the option.

   d. Vega: Price Sensitivity of the option in response to volatility used for its valuation.

   e. Rho: Price Sensitivity of the option in response to changes in interest rate.

4) Beta- It is the measurement of the systematic risk of a share.

This analysis is reported to the instances that define the operating strategy of derivatives on financial markets and operators therein, in order for them to set their criterion in risk taking with these instruments.

10. LOAN PORTFOLIO

(a) Classification of loan portfolio by currency

As of December 31, 2020 and 2019, the classification of loans into current and past due by currency (valued in local currency), is analyzed as follows:

	2020			2019		
	Currency			Currency		
	Local	**Foreign**	**Total**	Local	Foreign	Total
Current portfolio:						
Business or commercial activity loans	**$ 15,020**	**$ 36,701**	**$ 51,721**	$ 17,410	$ 34,419	$ 51,829
Financial institutions loans	**156,482**	**9,418**	**165,900**	150,739	13,244	163,983
Government entities loans	**2,004**	**1,139**	**3,143**	8,825	449	9,274
Consumer loans	**15**	**-**	**15**	20	-	20
Mortgage loans	**94**	**-**	**94**	104	-	104
Loans granted as agent of the Federal Government	**-**	**-**	**-**	-	9	9
Subtotal	**$ 173,615**	**$ 47,258**	**$ 220,873**	$ 177,098	$ 48,121	$ 225,219

Past due portfolio:						
Business or commercial activity loans	**-**	**528**	**528**	-	488	488
Financial institutions loans	**-**	**-**	**-**	228	-	228
Consumer loans	**6**	**-**	**6**	6	-	6
Mortgage loans	**5**	**-**	**5**	9	-	9
Subtotal	**11**	**528**	**539**	243	488	731
Total loan portfolio	**$ 173,626**	**$ 47,786**	**$ 221,412**	$ 177,341	$ 48,609	$ 225,950

Loans granted by the Institution acting as a financial agent, correspond to financing granted to Federal Government entities with resources obtained from international organizations for this particular purpose, which are presented in the loan portfolio.

Loans to financial institutions are granted to banking and non-banking entities through the discount of documents from individuals and entities engaged in business activities.

As of December 31, 2020 and 2019, the Institution has no loan portfolio subject to support program promoted by the Federal Government.

(b) Classification of loan portfolio by economic sector

As of December 31, 2020 and 2019, credit risk, classified by economic sector and the percentage of concentration are analyzed as follows:

	2020		2019	
	Amount	%	Amount	%
Federal Government	**$ -**	**-**	$ 15	-
Decentralized agencies and state-owned enterprises	**3,143**	**1**	6,821	3
State productive enterprises	**-**	**-**	2,447	1
Commercial Banks	**67,598**	**31**	65,041	29
Other public financial brokers	**-**	**-**	1,004	1
Other private financial brokers	**98,303**	**44**	98,167	43
Domestic companies	**52,249**	**24**	52,318	23
Private parties	**119**	**-**	137	-
Total	**$ 221,412**	**100**	$ 225,950	100

(c) Additional loan portfolio information

Annual weighted lending rates (unaudited):

During 2020 and 2019, annual weighted rates not audited, were as follows:

Type	**2020**	2019
Commercial loans *	**6.02%**	7.83%
Consumer	**4.28%**	4.50%
Mortgages	**2.47%**	5.09%
Excluded	**2.94%**	2.26%

* Includes commercial, financial and government entities loans.

Restructured and renewed loans:

As of December 31, 2020 and 2019, restructured loans are analyzed as follows:

	2020			2019		
	Current portfolio	**Past due portfolio**	**Total**	Current portfolio	Past due portfolio	Total
Commercial loans	**$ 8,648**	**$ 528**	**$ 9,176**	$ 9,031	$ 487	$ 9,518
Financial entities	**-**	**-**	**-**	2	-	2
Mortgage	**11**	**-**	**11**	1	-	1
Total	**$ 8,659**	**$ 528**	**$ 9,187**	$ 9,034	$ 487	$ 9,521

For the years ended December 31, 2020 and 2019, interests arising from restructured loans amounted to $418 and $313, respectively.

As of December 31, 2020 and 2019, no renewed loans were recorded by the Institution.

Past-due portfolio:

An analysis of past-due loans as of December 31, 2020 and 2019, from the date the loans were considered past-due are summarized as follows:

	1 a 180 days	**181 a 365 days**	**366 a 730 days**	**Over 2 years**	**Total**
2020					
Commercial*	**$ -**	**$ -**	**$ -**	**$ 528**	**$ 528**
Consumer	**1**	**1**	**-**	**4**	**6**
Mortgage	**3**	**-**	**-**	**2**	**5**
	$ 4	**$ 1**	**$ -**	**$ 534**	**$ 539**

	1 a 180 days	181 a 365 days	366 a 730 days	Over 2 years	Total
2019					
Commercial *	$ -	$ -	$ 227	$ 489	$ 716
Consumer	1	3	1	1	6
Mortgage	4	3	-	2	9
	$ 5	$ 6	$ 228	$ 492	$ 731

* Includes commercial, financial and government entities loans.

The activity in the past-due loan portfolio for the years ended December 31, 2020 and 2019, is summarized below:

Activity	**2020**	2019
Balance at beginning of year	**$ 7,953**	$ 743
Settlements	**8,387**	(4)
Write-offs	**(228)**	-
Transfer from performing to non-performing portfolio	**(8,084)**	12
Foreign exchange fluctuation	**43**	(20)
Balance at end of year	**$ 8,071**	$ 731

As of December 31, 2020 and 2019 the past-due loan portfolio is comprised of 44 and 54 former employees, respectively, and 2 companies, in both years, which are in a judicial or extra-judicial process.

As of December 31, 2020 and 2019, the interests on the past-due loan portfolio not recognized in net income amounted to $1 and $73, respectively, these are recorded in memorandum accounts.

For the years ended December 31, 2020 and 2019, the Institution recorded write-offs from those past due loans that had been fully reserved, for a total of $0 and $0, respectively.

For the years ended December 31, 2020 and 2019, the Institution had no recoveries from written-off loans.

Impaired loan portfolio:

In accordance with criterion B-6, "Loan portfolio", of the Provisions, commercial loans, are deemed impaired loan when it is determined that, based on current facts and information, as well as the review process of such loans, there is a significant likelihood of them not being entirely recovered (whether their principal component or interest) in accordance with the terms and conditions originally agreed. Both the current and non-performing portfolio may be identified as an impaired portfolio.

As of December 31, 2020 and 2019, the impaired portfolio is summarized below:

	2020				2019			
	Risk grade			**Allowance**	Risk grade			Allowance
	D	**E**	**Total**	**recorded**	D	E	Total	recorded
Current	**$ 294**	**$ -**	**$ 294**	**$ 132**	$ 157	$ -	$ 157	$ 70
Past-due	**-**	**528**	**528**	**528**	-	228	228	107
Total	**$ 294**	**$ 528**	**$ 822**	**$ 660**	$ 157	$ 228	$ 385	$ 177

Interest and commissions from the loan portfolio as of December 31, 2020 and 2019, are integrated as follows:

	2020			2019		
	Interest	**Commisions**	**Total**	Interest	Commisions	Total
Business or commercial activity loans	**$ 3,284**	**$ 43**	**$ 3,327**	$ 4,376	$ 60	$ 4,436
Financial institutions loans	**10,827**	**54**	**10,881**	14,015	49	14,064
Government entities loans	**438**	**2**	**440**	1,367	-	1,367
Mortgage loans	**3**	**-**	**3**	5	-	5
Loans granted as Federal Government Financial agent	**-**	**-**	**-**	1	-	1
Total	**$ 14,552**	**$ 99**	**$ 14,651**	$ 19,764	$ 109	$ 19,873

The average weighted term for the amortization of commissions collected on the granting of loans is one month.

Adjustment from valuation of financial asset hedging:

The fair value hedges of interest rate risk of a portion of a portfolio comprised of financial assets, could generate an adjustment to the carrying amount of the hedged item, from the gain or loss recorded in the consolidated statements of income and presented under the valuation adjustments from hedging of financial assets caption.

As of December 31, 2020 and 2019, the adjustment to the carrying value of the loan portfolio from the gain or loss recognized in results of operations for the year is presented under the caption "Valuation adjustment from hedging of financial assets" in the consolidated balance sheets for $4,933 and $2,161, respectively.

(d) Allowance for loan losses

As of December 31, 2020 and 2019, as a result of the application of the rating methodology, the probability of default and loss given default by type of loan portfolio, obtained as weighted average (unaudited) of the exposure to default, are as follows:

Portfolio type	Probability of default	Loss given default		Exposure to default
2020				
Commercial	**2.88%**	**44.88%**	**$**	**307,005**
Mortgage	**7.57%**	**25.22%**		**99**
Consumer	**35.54%**	**85.61%**		**21**
Exempt	**-**	**-**	**$**	**-**
2019				
Commercial	2.18%	44.88%	$	312,703
Mortgage	10.97%	26.00%		112
Consumer	29.26%	83.21%		25
Exempt	-	-	$	9

The parameters are weighted on the loans of each of the portfolios. Exposure to default shown for credit includes credit commitments.

In accordance with the Provisions for the loan portfolio rating, for development banking institutions, the loan portfolio under the responsibility of the Federal Government and the discounting of development banking entities, is not subject to the creation of allowance for loan losses, since these entities assume the credit risk. The balances of the loan portfolio and contingent operations subject to rating are controlled in memorandum accounts and are rated based on the methodologies established by the Banking Commission.

As of December 31, 2020, the credit rated loan portfolio and allowance for loan losses, are analyzed as follows:

Credit rated portfolio

Grade of risk		Business or commercial		Financial institutions		Government entities		Consumer		Mortgage		Total
A-1	**$**	**103,682**	**$**	**38,348**	**$**	**3,143**	**$**	**-**	**$**	**69**	**$**	**145,242**
A-2		**9,931**		**47,641**		**-**		**3**		**6**		**57,581**
B-1		**2,302**		**49,786**		**-**		**2**		**2**		**52,092**
B-2		**11,160**		**12,299**		**-**		**3**		**7**		**23,469**
B-3		**2,629**		**17,636**		**-**		**3**		**-**		**20,268**
C-1		**6,071**		**30**		**-**		**2**		**9**		**6,112**
C-2		**246**		**-**		**-**		**1**		**3**		**250**
D		**1,410**		**161**		**-**		**1**		**1**		**1,573**
E		**531**		**-**		**-**		**6**		**1**		**538**
Total	**$**	**137,962**	**$**	**165,901**	**$**	**3,143**	**$**	**21**	**$**	**98**	**$**	**307,125**
Exempted portfolio:												
Federal Government												**-**
Total portfolio											**$**	**307,125**

Allowance for loan losses

Grade of risk	Business or commercial	Financial institutions	Government Entities	Consumer	Mortgage	Total
A-1	$ 417	$ 245	$ 16	$ -	$ -	$ 678
A-2	94	544	-	-	-	638
B-1	22	913	-	-	-	935
B-2	109	263	-	-	-	372
B-3	49	601	-	-	-	650
C-1	508	2	-	-	-	510
C-2	3	-	-	-	-	3
D	277	72	-	-	-	349
E	528	-	-	6	1	535
Total	**$ 2,007**	**$ 2,640**	**$ 16**	**$ 6**	**$ 1**	**$ 4,670**
Aditional reserves recognized by the Banking Comission						**970**
Allowance for assignment of lines of guarantees						**2,431**
Total						**$ 8,071**

As of December 31, 2019, the credit rated loan portfolio and the allowance for loan losses, are analyzed as follows:

Credit rated portfolio

Grade of risk	Business or commercial	Financial institutions	Government entities	Consumer	Mortgage	Total
A-1	$ 107,706	$ 42,315	$ 9,274	$ -	$ 74	$ 159,369
A-2	7,956	58,539	-	7	9	66,511
B-1	3,249	55,880	-	1	-	59,130
B-2	15,242	5,343	-	3	8	20,596
B-3	1,505	1,795	-	4	9	3,313
C-1	2,568	110	-	1	1	2,680
C-2	141	-	-	2	5	148
D	362	-	-	2	6	370
E	489	228	-	6	1	724
Total	$ 139,218	$ 164,210	$ 9,274	$ 26	$ 113	$ 312,841
Exempted portfolio:						
Federal Government						9
Total						$ 312,850

Allowance for loan losses

Grade of risk	Business or commercial	Financial institutions	Government entities	Consumer	Mortgage	Total
A-1	$ 444	$ 282	$ 46	$ -	$ -	$ 772
A-2	94	736	-	-	-	830
B-1	48	942	-	-	-	990
B-2	92	115	-	-	-	207
B-3	32	54	-	-	-	86
C-1	157	8	-	-	-	165
C-2	15	-	-	1	-	16
D	78	-	-	1	2	81
E	488	107	-	5	1	601
Total	$ 1,448	$ 2,244	$ 46	$ 7	$ 3	$ 3,748

Aditional reserves recognized by the Banking Comission		700
Allowance for assignment of lines of guarantees		3,505
Total	$	7,953

The activity in the allowance for loan losses for the years ended December 31, 2020 and 2019, is summarized as follows:

		2020		2019
Balance at beginning of year	**$**	**7,953**	$	7,079
Provision charged to income for the year		**8,387**		2,710
Provisions, write-offs and others		**(228)**		-
Allowance cancellation		**(8,084)**		(1,797)
Exchange rate fluctuations		**43**		(39)
Balance at end of year	**$**	**8,071**	$	7,953

11. OTHER ACCOUNTS RECEIVABLE, NET

As of December 31, 2020 and 2019, other accounts receivable, are shown below:

		2020		2019
Loans to Institution's personnel	**$**	**2,201**	$	2,267
Debtors for settlement of operations		**30,128**		-
Other receivables		**4,544**		1,446
Receivables for fees on current trading activities		**68**		92
Payments receivable on swap trades		**4,884**		4,492
		41,825		8,297
Allowance for write-offs of other receivables		**(4,433)**		(1,430)
Total	**$**	**37,392**	$	6,867

12. FORECLOSED ASSETS

As of December 31, 2020 and 2019, foreclosed assets are analyzed as follows:

		2020		2019
Property	**$**	**30**	$	29
Furniture, securities and foreclosed rights		**242**		20
		272		49
Allowances for impairment		**(272)**		(49)
	$	**-**	$	-

The activity of the allowance for impairment for the years ended December 31, 2020 and 2019 is analyzed as follows:

		2020		2019
Balance at beginning of year	**$**	**(49)**	$	(47)
Increase on allowance of foreclosed assets		**(223)**		(2)
Balance at end of year	**$**	**(272)**	$	(49)

In conformity with the Provisions, additional reserves have been recorded for foreclosed assets in judicial or extra-judicial process or received in lieu of payment.

13. PROPERTY AND EQUIPEMENT, NET

Property and equipment as of December 31, 2020 and 2019, are analyzed as follows:

	2020	2019
Land	**$ 53**	$ 491
Building	**2,228**	1,810
Furniture and equipment	**262**	240
Computer equipment	**39**	39
	2,582	2,580
Less – Accumulated depreciation	**(1,138)**	(1,097)
	$ 1,444	$ 1,483

The useful lives during which the main assets are depreciated are shown below:

Concept	Useful life
Building	53 to 70 years
Furniture and equipment	10 years
Computer equipment	3 to 4 years

Depreciation charged to income for the years ended December 31, 2020 and 2019, amounted to $41 and $38, respectively.

For the years ended December 31, 2020 and 2019, there was no effect from impairment of property, leasehold improvements and adaptations.

As of December 31, 2020 and 2019, the percentages of depreciation applied by our main subsidiary, Plaza Insurgentes Sur, S.A. de C.V., which provides the Institution with furniture and real property lease services, are as follows:

Concept	% of depreciation
Building	2%
Furniture and equipment	10%
Computer equipment	30%
Installation expenses	5%

14. PERMANENT INVESTMENTS AND OTHER INVESTMENTS

As of December 31, 2020 and 2019, the shares in permanent investments, are integrated as follows:

	2020	2019
Corporación Andina de Fomento	**$ 2,607**	$ 2,482
Shares of other entities	**287**	365
Investments in subsidiary companies	**32**	31
Fideicomiso Asistencia Técnica en Programas de Financiamiento PYME	**-**	11
Fideicomiso Patronato del Centro de Diseño de México	**9**	11
Fideicomiso Capital Emprendedor	**4**	4
Total	**$ 2,939**	$ 2,904

The activity in the permanent investments and other investments as of December 31, 2020 and 2019, is summarized as follows:

		2020		2019
Balance at beginning of year	$	2,904	$	2,926
Equity method in the results of unconsolidated subsidiaries		30		30
Exchange translation		141		(105)
Investments acquisition		62		84
Investments disposals		(10)		-
Applications		(188)		(31)
Balance at end of year	$	2,939	$	2,904

15. DEPOSIT FUNDING

As of December 31, 2020 and 2019, the deposit-funding caption is analyzed as follows:

	2020			2019		
	Currency			Currency		
	Local	Foreign	Total	Local	Foreign	Total
Time deposits:						
Money market	$ 132,468	$ 3,583	$ 136,051	$ 140,537	$ 4,904	$ 145,441
Debt securities issued:						
Certificates	61,099		61,099	65,817	-	65,817
Bank bonds	-	39,073	39,073	-	33,581	33,581
Securities notes	-	4,829	4,829	-	13,826	13,826
	61,099	43,902	105,001	65,817	47,407	113,224
Total deposit funding	$ 193,567	$ 47,485	$ 241,052	$ 206,354	$ 52,311	$ 258,665

As of December 31, 2020 and 2019, time deposits from the money market according to their maturity are integrated as follows:

		2020		2019
Less than one year	$	135,815	$	139,182
Between one and five years		-		5,153
		135,815		144,335
Accrued unpaid interest		236		1,106
	$	136,051	$	145,441

As of December 31, 2020 and 2019, the (unaudited) average weighted interest rates and average terms in days on time deposits from money market are as follows:

Time deposits from money market

	2020			
Instrument	Annual average rate	Average term in days		Amount
Stock certificates	17.13	5,477	$	374
Bank promissory notes	4.11	10.2		131,862
Deposit certificates in foreign currency (valued)	0.4	16		3,579
Accrued unpaid interest				236
			$	136,051

Instrument	Annual average rate	2019 Average term in days		Amount
Stock certificates	7.68	971	$	10,523
Bank promissory notes	7.10	14		128,911
Deposit certificates in foreign currency (valued)	1.20	8		4,901
				144,335
Accrued unpaid interest				1,106
			$	145,441

16. DEBT SECURITIES ISSUED IN THE COUNTRY

As of December 31, 2020 and 2019, the Institution has issued stock certificates with par value of one hundred pesos each, under the Institution's financial program authorized by the Ministry of Finance, as shown below:

Issuance date	**Maturity**	**Securities (millons)**	**Par value (pesos)**	**Interest rate**	**2020**	2019
Cebures settled in Indeval						
03/08/2012	**22/07/2022**	**20**	**100**	**5.69**	**$ 2,000**	$ 2,000
10/12/2012	**22/07/2022**	**20**	**100**	**5.69**	**2,000**	2,000
22/11/2013	**08/03/2024**	**30**	**100**	**6.55**	**3,000**	3,000
14/03/2014	**08/03/2024**	**43**	**100**	**6.55**	**4,750**	4,750
06/06/2014	**08/03/2024**	**40**	**100**	**6.55**	**4,000**	4,000
26/09/2014	**08/03/2024**	**32.5**	**100**	**6.55**	**3,250**	3,250
17/04/2015	**07/03/2025**	**60**	**100**	**6.15**	**6,000**	6,000
24/08/2015	**07/03/2025**	**40**	**100**	**6.15**	**4,000**	4,000
10/04/2017	**03/04/2020**	**47.5**	**100**	**8.35**	**-**	4,750
12/04/2017	**25/09/2026**	**12.5**	**100**	**6.20**	**1,250**	1,250
27/04/2018	**23/04/2021**	**45**	**100**	**8.26**	**4,500**	4,500
02/05/2018	**25/09/2026**	**25**	**100**	**6.20**	**2,500**	2,500
26/07/2019	**22/07/2022**	**52.8**	**100**	**4.41**	**5,280**	5,280
26/07/2019	**13/07/2029**	**27.2**	**100**	**7.92**	**2,720**	2,720
Premium or discount on placement					**(263)**	(377)
Accured interest payable					**775**	784
Subtotal					**$ 45,762**	$ 50,407

Issuance date	**Maturity**	**Securities (millons)**	**Par value (pesos)**	**Interest rate**	**2020**	2019
Cebures settled in Euroclear and Clearstream						
27/04/2016	**25/09/2026**	**50**	**99.31**	**6.2**	**$ 5,000**	$ 5,000
25/10/2016	**25/09/2026**	**42**	**99.40**	**6.2**	**4,200**	4,200
Premium or discount on placement					**(59)**	(82)
Accrued interest payable					**143**	220
Subtotal					**9,284**	9,338
Green bond denominated in local currency						
02/09/2016	**01/09/2023**	**20**	**99.99**	**6.05**	**2,000**	2,000
Accrued interest payable					**40**	59
Subtotal					**2,040**	2,059

Social bond						
21/07/2017	**15/07/2022**	**40**	**100**	**4.47**	**4,000**	4,000
Accrued interest payable					**13**	13
Subtotal					**4,013**	4,013
Total					**$ 61,099**	$ 65,817

Stock certificates

In April 2016, two stock certificates (fixed-rate and reviewable rate) were issued under the communicative units format and under the program of syndicated auctions that the Institution has been carrying out since the end of 2013.

Green bond

Additionally, in September 2016, the Institution issued its second green bond; the demand was close to $6,000 (2.92 times) and the final placement amounted to $2,000 which was initially used to finance three projects, two mini- hydroelectric plants and an eolian park located in the states of Nayarit and Puebla, respectively. The issuance was also highlighted by the support of the second opinion from Sustainalytic. This marks the beginning of Green bonds in Mexico since it is the first issue in pesos of this type.

Social bond

In July 2017, the Institution placed the first social bond listed in the Mexican Stock Exchange who has the second opinion of Sustainalytics. The demand of this transaction amounted to $13,373 (3.34 times) and the final placement amounted to $4,000 and 6.68 times the target amount that was $2,000. The Institution's social bond is aligned with the social bonds principles 2017 of the International Capital Market Association ("ICMA"), due to the nature of the eligibility criteria for the programs and populations target.

Valuation adjustments from financial liabilities hedging

The fair value hedges of interest rate risk of a portion of a portfolio comprised of financial liabilities could generate an adjustment to the carrying amount of the hedged item, from the gain or loss recorded in the consolidated statements of income and presented under valuation adjustments for financial liabilities hedging.

As of December 31, 2020 and 2019, the gain (loss) recognized in results of operations for the year is presented under the caption "Valuation adjustment from hedging of financial liabilities" in the consolidated balance sheets for $4 and $73, respectively.

17. CREDIT SECURITIES ISSUED ABROAD

Bank bonds

As of December 31, 2020 and 2019, the bank bonds balance amounts to $39,073 and $33,581, respectively. The current balances of securities placed by the Institution abroad, as shown below:

2020						
Currency	**Securities**	**Balance in foreign currency in millions**	**Interests**	**% Average rate**	**Balance in local currency**	**Term**
US Dollars						
	57	**1,786**	**1**	**0.4610**	**$ 35,589**	**Less than one year**
	5	**175**	**-**	**1.0110**	**3,484**	**Over one year**
					$ 39,073	

2019						
Currency	Securities	Balance in foreign currency in millions	Interests	% Average rate	Balance in local currency	Term
US Dollars						
	51	1,648	6	2.2008	$ 31,204	Less than one year
	5	125	7	3.7751	2,377	Over one year
					$ 33,581	

Stock notes:

As of December 31, 2020 and 2019, the current balance of this caption for $4,829 and $13,826, respectively an it is integrated as follows:

2020				
Currency	**Balance in foreign currency (millions)**	**% Average rate**	**Balance in local currency**	**Term**
Japanese Yen	**10,000**	**0.78**	**$ 1,931**	**5 years**
Japanese Yen	**15,000**	**0.66**	**2,891**	**5 years**
Accrued interests			**7**	
			$ 4,829	

2019				
Currency	Balance in foreign currency (millions)	% Average rate	Balance in local currency	Term
US Dollars	500	3.375	$ 9,432	5 years
Japanese Yen	10,000	0.78	1,736	5 years
Japanese Yen	15,000	0.66	2,605	5 years
Premium or discount on placement			(3)	
Accrued interests			56	
			$ 13,826	

18. BANK AND OTHER BORROWINGS

As of December 31, 2020 and 2019, bank and other borrowings are comprised mainly for credits from foreign financial institutions at current market rates, as follows:

	2020	2019
Multinational and governmental agencies:		
World Bank	$ 996	$ 943
Inter-American Development Bank	6,520	6,423
Others	5,991	5,696
	13,507	13,062
Banking institutions	10,482	11,302
Other borrowings	26,397	8,669
Accrued unpaid interest	18	49
	36,897	20,020
	$ 50,404	$ 33,082

As of December 31, 2020 and 2019, maturity term less than one-year amount to $34,613 and $19,988, respectively.

As of December 31, 2020, bank and other borrowings based on their maturity dates are integrated as follows:

Financial agency	Average rate	Average term to maturity (residual)	Millions in foreign currency	Local currency
Due on demand				
Local currency	4.16%	2	$ 21,022	$ 21,022
Foreign currency	4.25%	2	270	5,375
Total				$ 26,397
Short term				
US Dollars:				
Commercial banking				
Kreditanstalt Fur Wiederaufbau (kfw)	1.45%	362	21	424
Mizuho Corporate Bank Limited New York	1.01%	5	60	1,195
Corporación Andina de Fomento (CAF)	0.45%	130	300	5,972
Instituto de Crédito Oficial (ICO)	1.33%	363	1	15
NF BID Cclip 2226 OC-ME Desarrollo Pymes Pemex	1.12%	363	5	100
NF CTF BIRF 98062 Programa de sustitución de electrodomésticos	0.75%	363	5	100
N.F.BID Cclip 2843/OC-ME Prog Linea Cred Condiciona ME-X1010	1.12%	363	5	100
NF BID 3237/OC-ME Prog Financiamiento Impulso Cogeneración e	1.12%	362	5	100
European Investment Bank	0.91%	-	6	115
Euros:				
Kreditanstalt fur wiederaufbau (kfw)	1.24%	-	3	76
Natexis Banque Popilaires	2.00%	-	-	1
Interests	1.18%	-	18	18
Total				$ 8,216

Financial agency	Average rate	Average term to maturity (residual)	Millions in foreign currency	Local currency
Long term				
US Dollars:				
Commercial banking				
Kreditanstalt fur wiederaufbau (kfw)	**1.45%**	**2,407 days**	**192**	**$ 3,824**
Instituto de Crédito Oficial (ICO)	**1.33%**	**760 days**	**-**	**3**
NF BID Cclip 2226 OC-ME Desarrollo Pymes Pemex	**1.12%**	**5,279 days**	**68**	**1,344**
NF CTF BIRF 98062 Programa de sustitución de electrodomésticos	**0.75%**	**3,545 days**	**45**	**896**
2631 TC ME Programa de financiamiento de energías renovables	**0.75%**	**4,201 days**	**70**	**1,394**
N.F.BID Cclip 2843/OC-ME Prog Linea Cred Condiciona ME-X1010	**1.12%**	**6,344 days**	**83**	**1,642**
NF BID 3237/OC-ME Prog Financiamiento Impulso Cogeneración	**1.12%**	**7,106 days**	**93**	**1,842**
European Investment Bank	**0.91%**	**5,085 days**	**237**	**4,717**
Subtotal				**$ 15,662**
Euros:				
Kreditanstalt fur wiederaufbau (kfw)	**1.24%**	**973 days**	**5**	**128**
Natexis Banque Populaires	**2.00%**	**1,095 days**	**-**	**1**
Subtotal				**129**
Total				**$ 15,791**

As of December 31, 2019, bank and other borrowings based on their maturity dates are integrated as follows:

Financial agency	Average rate	Average term to maturity (residual)	Millions in foreign currency	Local currency
Due on demand				
Local currency	7.16%	2 days	$ 8,669	$ 8,669
Total				$ 8,669
Short term				
US Dollars:				
Commercial banking	2.0627%	295 days	275	$ 5,171
NF BID Cclip 2226 oc-Me Desarrollo	2.9300%	365 days	5	94
NF BID Cclip 2843 oc Me prog línea Cred Condicional	2.9300%	365 days	5	94
Instituto de Crédito Oficial	1.3333%	365 days	1	19
Corporación Andina de Fomento	2.1526%	20 days	300	5,659
NF BID Cclip 3237 OC- Me Prog financiamiento Impulso cogeneración	2.9300%	365 days	2.5	47

European Investment Bank	2.6846%	365 days	5.22		109
Euros:					
Commercial banking	1.3190%	365 days	3		68
Financial agent					
Euros:					
Inter-American Development Bank Washington D.C.	3.00%	103 days	-		9
Interest			3		49
Total				$	11,319

Financial agency	Average rate	Average term to maturity (residual)	Millions in foreign currency		Local currency
Long term					
US dollars:					
Commercial banking	1.7652%	5 years /6 months	213	$	4,025
Instituto de Crédito oficial ICO	1.3333%	2 years /3months	1		19
NF BID Cclip 2226 oc Me Desarrollo	2.9300%	15 years /5months	72		1,367
NF ctf BIRF 98062 Programa de sustitución de electrodomésticos	0.7500%	10 years /8 months	50		943
2631 tc Me Programa de Financiamiento de energías renovables	0.7500%	12 years /6 months	70		1,320
921,650NF BID Cclip 2843 oc Me prog linea	2.9300%	18 years/4 months	92		1,651
NF BID 3237 oc-Me programa financiamiento impulso cogeneración	2.9300%	20 years /5 months	97		1,840
European Investment Bank	2.6846%	365 days	93		1,750
Euros:					
Commercial banking	1.3190%	3 years /10 months	8		179
Total				$	13,094

The accounts of credits obtained not drawn down (Note 23 Memorandum accounts) represent the lines of credit granted to the Institution not exercised at year-end, and are analyzed as follows:

		2020		2019
Central Bank	**$**	**212**	$	201
Kreditanstal Fur Wideraufbau Frankfurt		**785**		682
Banco Interamericano de Desarrollo		**1,708**		1,619
Total	**$**	**2,705**	$	2,502

19. OTHER ACCOUNTS PAYABLE

As of December 31, 2020 and 2019, this caption is analyzed as follows:

		2020		2019
Payables for cash collateral received	$	**2,652**	$	319
Sundry creditors		**2,547**		3,353
Income taxes payable		**73**		101
Clearing accounts		**-**		7,405
Other accounts payable		**223**		204
Guarantee deposits		**3**		3
Total	**$**	**5,498**	$	11,385

20. EMPLOYEE BENEFITS

a) Defined contribution retirement plan-

Beginning in 2006, the Institution amended the General Labor Conditions (GLC) based on trends and best practices in the management and operation of retirement and pension schemes, to incorporate new employees, as well as those who decided to migrate from defined benefits to defined contribution scheme. This scheme allows for having a greater control over costs and liabilities of the plan, maintain an adequate cost-benefit ratio for the Institution and for employees and establishes clear rules of contribution or retirement.

This plan consists of the contributions carried out by the Institution to open individual accounts for each employee, which are divided in two sub accounts, denominated "A" and "B", respectively. It further consists of contributions carried out by the employee to the sub-account "B" and the returns generated by both subaccounts, which are jointly identified as the employee's individual account.

The amount of the contributions for the years ended December 31, 2020 and 2019, amounted to $40 and $13, respectively.

As of December 31, 2020 and 2019, the defined contribution plan assets amount to $269 and $240, respectively, and are invested in an irrevocable trust incorporated in the Institution.

b) Defined benefits retirement plan-

Moreover, GLCs set forth that employees who reach 65 years of age and complete 30 years of service will be entitled to a retirement annuity. Moreover, upon reaching 65 years of age with 5 years of seniority, employees will be entitled to receive a monthly annuity, whose amount will be equal to the result of multiplying the average of the net monthly salary accrued by the employee during the last year of service by the number of years of service rendered by the 0.0385 factor. The Institution reserves the right to pay a pension for retirement to the employee who has reached 60 years of age or completed 26 years of service.

On the other hand, the articles of the GLC dated August 12, 1994 set forth that employee who joined the Institution prior to the above mentioned date and reach 55 years of age and have completed 30 years of service, 60 years of age and have completed 26 years of service or 60 years of age and completed 5 years of seniority will be entitled for a pension in the terms of the GLC referred to above.

In the event of an unjustified dismissal or termination of the employment relationship, the employee may choose to receive the compensation upon termination or a retirement annuity calculated based on the main characteristics of the retirement plan if the employee is 50 years old and has 16 or more years of seniority.

Article 5 paragraph a) of the GLC, reviewed in 2006, establishes that individuals who have obtained pension for disablement, disability or retirement prior to this GLC review and those employees who joined the Institution prior to such date and to whom the defined retirement benefit plan applies, will continue to enjoy the right to receive from the Institution at the time when they retire the following additional benefits:

Short-term loans, medium-term loans and special loan for savings, which will be paid with a charge to caption "Administrative and promotional expenses", with an 18% net guaranteed return of the maximum capacity to invest that will be calculated on 41.66% of the net monthly pension multiplied by 72 months, as well as the available capacity that will be over 50% of the net pension, less monthly deductions from the short and medium-term loans with principal and interest multiplied by 72 months, with a 41.66% cap of monthly net pension. The special loan for Savings will bear 1% annual interest on the principal, which will be withheld by the Institution.

The net period cost for the years ended December 31, 2020 and 2019, amounts to $979 and $898, respectively, including the effect of other post-retirement benefits. The estimated net period cost for the year 2021 amounts to $1,035.

As of December 31, 2020 and 2019, the plan assets of the fund for labor obligations amounted to $7,354 and $7,139, respectively, and is invested in an irrevocable trust incorporated in the Institution. The net period cost recognized in the unconsolidated statements of income of the Institution amounted to $137 and $198, respectively.

As of December 31, 2020 and 2019, plan assets related to "Other post-retirement benefits" amounts to $13,829 and $12,626, respectively. The net period cost recognized in the consolidated statements of income of the Institution amounted to $841 and $700, respectively.

As of December 31, 2020 and 2019, the assets of the plan of the Fund for labor obligations are invested in the following securities:

Classification of securities in the Fund and its concentration.	**2020**	2019
Government securities	**45.32%**	48.96%
Banking securities	**2.05%**	1.96%
Other debt securities	**52.63%**	49.08%
Total	**100.00%**	100.00%

As of December 31, 2020, from the total assets of the plan, 35.44% in Federal Government Development Bonds (37.94% in December 2018); 9.88% in Bonds of the Institute for the Protection of Bank Savings (11.02% in December 2018); 2.05% in term investments with performance payable at maturity and investment companies of securities issued by lending institutions (1.96% in December 2018); 52.63% in Certificates and investment companies, securities issued by lending institutions and private sector companies with high credit rating (49.08% in December 2018).

The summary of the actuarial calculations as of December 31, 2020, is as follows:

Concept	Pension	Seniority premium	Other retirement benefits	Financial credit cost
	2020			
Accounting policy for the recognition of losses and gains	Deferred amortization			
General benefits description	According to general employment conditions			
Obligation for acquired benefits	$ 8,087	$ 3	$ 11,035	$ 3,917

Reconciliation between the value of the Defined Benefits Obligation (DBO) and the fair value of plan assets (PA) with the net liability for defined benefits or net asset for defined benefits

Concept	Pension	Seniority premium	Other retirement benefits	Financial credit cost
	2020			
Defined benefits obligations	$ (8,254)	$ (26)	$ (12,701)	$ (4,149)
Plan assets at fair value	7,336	18	10,255	3,574
Financial situation of the obligation	(918)	(8)	(2,446)	(575)
Remeasurements pending of recognition	589	2	1,223	408
Net (liability) asset for defined benefits	$ (329)	$ (6)	$ (1,223)	$ (167)

Concept	Pension	Seniority premium	Other retirement benefits	Financial credit cost
	2020			
Net (liability) assets for defined benefits at the beginning of year	$ 742	$ 8	$ 2,432	$ 895
Net period cost	70	2	305	87
Contributions	(25)	(1)	(82)	(56)
Remeasurements of liabilities or (assets) recognized in OCI	(458)	(3)	(1,432)	(759)
Net (liability)/asset for defined benefits	$ 329	$ 6	$ 1,223	$ 167
Net period cost				
Labor cost	$ 5	$ 1	$ 70	$ 7
Financial cost	285	1	452	160
Return on assets	(264)	(1)	(366)	(131)
Recycling of remeasurements	44	1	149	51
Net period cost	$ 70	$ 2	$ 305	$ 87

Net liability (asset) reameasurements for defined benefits

Defined benefits obligations	**$ 8,254**	**$ 26**	**$ 12,701**	**$ 4,149**
Estimated defined benefits obligation	**(8,016)**	**(26)**	**(12,694)**	**(4,473)**
Actuarial (gains) / losses on obligations	**$ 238**	**$ -**	**$ 7**	**$ (324)**

2019 **Concept**	**Pension**	**Seniority premium**	**Other retirement benefits**	**Financial credit cost**
Fair value of the plan assets	**$ (7,336)**	**$ (18)**	**$ (10,255)**	**$ (3,574)**
Estimated value of plan assets	**7,274**	**18**	**10188**	**3598**
(Gains) / losses on return on plan assets	**(62)**	**-**	**(67)**	**24**
Remeasurements generated in the year recognized in OCI	**$ 176**	**$ -**	**$ (60)**	**$ (300)**
Average remaining working life	**9.08**	**9.66**	**9.08**	**9.08**

The summary of the actuarial calculations as of December 31, 2019, is as follows:

2019 Concept	Pensión	Seniority premium	Other retirement benefits	Financial credit cost
Accounting policy for the recognition of losses and gains	Deferred amortization			
General benefits description	According to general employment conditions			
Obligation for acquired benefits	$ 7,605	$ 3	$ 11,098	$ 3,803

Reconciliation between the value of the Defined Benefits Obligation (DBO) and the fair value of plan assets (PA) with the net liability for defined benefits or net asset for defined benefits

2019 Concept	Pension	Seniority premium	Other retirement benefits	Financial credit cost
Defined benefits obligations	$ (7,784)	$ (21)	$ (12,742)	$ (4,050)
Plan assets at fair value	7,054	16	9,116	3,521
Financial situation of the obligation	(730)	(5)	(3,626)	(529)
Remeasurements pending of recognition	660	3	1,365	457
Net (liability) asset for defined benefits	$ (70)	$ (2)	$ (2,261)	$ (72)

2019 Concept	Pension	Seniority premium	Other retirement benefits	Financial credit cost
Net (liability) assets for defined benefits at the beginning of year	$ (110)	$ (4)	$ 162	$ (101)
Net period cost	196	2	572	128
Contributions	(196)	(2)	(572)	(128)
Remeasurements of liabilities or (assets) recognized in OCI	180	6	2,099	173
Net (liability)/ asset for defined benefits	$ 70	$ 2	$ 2,261	$ 72
Net period cost				
Labor cost	$ 11	$ 2	$ 114	$ 14
Financial cost	111	-	50	41
Return on assets	24	-	167	28
Recycling of remeasurements	50	-	241	45
Net period cost	$ 196	$ 2	$ 572	$ 128

Net liability (asset) reameasurements for defined benefits

Defined benefits obligations	$ 7,784	$ 21	$ 12,742	$ 4,050
Estimated defined benefits obligation	(7,517)	(20)	(11,476)	(3,951)
Actuarial (gains) / losses on obligations	$ 267	$ 1	$ 1,266	$ 99

2019 Concept	Pension	Seniority premium	Other retirement benefits	Financial credit cost
Fair value of the plan assets	$ (7,054)	$ 16	$ (9,117)	$ (3,521)
Estimated value of plan assets	7,043	16	9,044	3,501
(Gains) / losses on return on plan assets	(11)	-	(73)	(20)
Remeasurements generated in the year recognized in OCI	$ 256	$ 1	$ 1,193	$ 80
Average remaining working life	9.11	9.71	9.11	9.11

Main hypothesis used:

	2020	2019
Discount rate	**7.16%**	7.42%
Increase in wage rate	**4.00%**	4.00%
Increase of minimum wage rate	**4.00%**	4.00%
Medical inflation rate	**11.10%**	10.75%
Long term inflation rate	**3.50%**	3.50%

Financial position

As of December 31, 2020 and 2019, the financial position is as follows:

2020	**Retirement pension**	**Seniority plan**	**Medical service, fund insurance, premium sport club**	**Other retirement benefits SLS and financial credit cost**
Defined benefits obligations	**$ (8,254)**	**$ (26)**	**$ (12,701)**	**$ (4,149)**
Fair value of the plan assets	**7,336**	**18**	**10,255**	**3,574**
Obligation's financial position	**(918)**	**(8)**	**(2,446)**	**(575)**
Remeasurements pending recognition	**589**	**2**	**1,223**	**408**
Net (liability) asset for defined benefits	**(329)**	**(6)**	**(1,223)**	**(167)**

2019	Retirement pension	Seniority plan	Medical service, fund insurance, premium sport club	Other retirement benefits SLS and financial credit cost
Defined benefits obligations	$ (7,784)	$ (21)	$ (12,742)	$ (4,050)
Fair value of the plan assets	7,054	16	9,116	3,521
Obligation's financial position	(730)	(5)	(3,626)	(529)
Remeasurements pending recognition	660	3	1,365	457
Net (liability) asset for defined benefits	$ (70)	$ (2)	$ (2,261)	$ (72)

Reserve and OCI reconciliation

As of December 31, 2020 and 2019, the reserve and OCI reconciliation are as follows:

2020	**Retirement pension**	**Seniority premium**	**Medical service, savings fund, insurance, premium sport club**	**Other retirement benefits (SLS) and financial credit cost**
Reserve balance at beginning of year	**$ 742**	**$ 8**	**$ 2,432**	**$ 895**
Net period cost	**70**	**2**	**305**	**87**
Contributions	**(25)**	**(1)**	**(82)**	**(56)**
Remeasurements liabilities or (assets) recognized in OCI	**131**	**(1)**	**(209)**	**(351)**
Balance at end of year	**$ 918**	**$ 8**	**$ 2,446**	**$ 575**

2019	Retirement pension	Seniority premium	Medical service, savings fund, insurance, premium sport club	Other retirement benefits (SLS) and financial credit cost
Reserve balance at beginning of year	$ (110)	$ (4)	$ 162	$ (101)
Net period cost	196	2	572	128
Contributions	(196)	(2)	(572)	(128)
Remeasurements liabilities or (assets) recognized in OCI	180	6	2,099	173
Balance at end of year	$ 70	$ 2	$ 2,261	$ 72

2020	**Retirement pension**	**Seniority premium**	**Medical service, savings fund insurance, premium sport club**	**Other retirement benefits (SLS) and financial credit cost**
Accumulated OCI statement				
Balance at beginning of year pending of recognition in OCI	**$ 624**	**$ 3**	**$ 1,293**	**$ 432**
Recycling of remeasurements	**(35)**	**(1)**	**(70)**	**(24)**
Balance at year end pending of recognition in OCI	**$ 589**	**$ 2**	**$ 1,223**	**$ 408**
Beginning balance recognized in OCI	**162**	**6**	**1,361**	**494**
Recycling of remeasurements	**(9)**	**(1)**	**(78)**	**(27)**
Actuarial (gain) / losses in obligations	**238**	**-**	**7**	**(324)**
(Gains) / losses in return on plan assets	**(62)**	**1**	**(67)**	**24**
Balance at year end recorded in OCI	**329**	**6**	**1,223**	**167**
Net liabilities (assets) due to defined benefits at end of year	**$ 329**	**$ 6**	**$ 1,223**	**$ 167**

2019	Retirement pension	Seniority premium	Medical service, savings fund insurance, premium sport club	Other retirement benefits (SLS) and financial credit cost
Accumulated OCI statement				
Balance at beginning of year pending of recognition in OCI	$ 744	$ 3	$ 1,529	$ 516
Recycling of remeasurements	(84)	-	(164)	(58)

Balance at end of year pending of recognition in OCI	$ 660	$ 3	$ 1,365	$ 458
Beginning balance recognized in OCI	(110)	(4)	162	(101)
Recycling of remeasurements	33	-	(77)	13
Actuarial (gain) / losses in obligations	402	6	2,525	257
(Gains) / losses in return on plan assets	(255)	-	(349)	(97)
Balance at year end recorded in OCI	70	2	2,261	72
Net liabilities (assets) due to defined benefits at end of year	$ 70	$ 2	$ 2,261	$ 72

In accordance with the amendments to the Provisions published in the Official Federal Gazette on December 31, 2015, and with the effectiveness of the new MFRS D-3 issued by the CINIF, the Institution adopted the progressive application referred to in the third transitory article of the aforementioned Provisions.

Based on the aforementioned, the recognition of the balances indicated in subparagraphs a) and b) of the paragraph 81.2 of MFRS D-3, the balance of modifications to the plan not yet recognized and the unrecognized accumulated balance for gains or losses the plan, respectively, will be recognized in fiscal year 2021 at the latest, recognizing 20% from its initial application and an additional 20% in each of the subsequent years, up to 100% within a maximum period of 5 years. The decision of the Institution to adopt the progressive application of the recognition of these balances, was communicated to the Banking Commission in a timely manner.

The accumulated balance of Plan losses not recognized, amounts to $(2,223). The initial effects of the application of MFRS D-3 involve the recognition of 20% of the accumulated balance plan losses of $(445), amount which will be recognized, in the caption of "Remeasurements for employee's defined benefits" in earned capital. The remaining amount of $(1,778) will be applied in the subsequent years, within a maximum period of 5 years.

21. INCOME TAXES AND EMPLOYEE STATUTORY PROFIT SHARING (ESPS)

Income Tax (IT) Law effective as of January 1, 2014 establishes an IT rate of 30% for 2014 and later years. The current ESPS rate is 10%, for the years 2020 and 2019.

As of December 31, 2020 and 2019, current IT and ESPS expense are as follows:

	2020		2019	
	IT	**ESPS**	IT	ESPS
Current IT and ESPS:				
Institution	$ -	$ -	$ -	$ -
Consolidated trusts	**(2)**	-	(813)	-
Management funds	**(6)**	-	(6)	-
Plaza Insurgentes	**(16)**	-	(19)	-
Current IT and ESPS	**$ (24)**	**$ -**	$ (838)	$ -
Deferred IT and ESPS:				
Institution	**$ 1,304**	**$ 292**	$ 331	$ (11)
Consolidated trusts	**(788)**	**(263)**	423	140
CMIC	**(135)**	-	10	-
Plaza Insurgentes	**6**	-	(8)	-
Deferred IT and ESPS	**387**	**29**	756	129
	$ 363	**$ 29**	$ (82)	$ 129

The Institution does not consolidate for tax purposes the tax result with its subsidiaries, thus the information presented below is for informational purposes only.

The Institution has not recognized a deferred tax liability, on the undistributed profits of subsidiaries and associated companies; the Institution currently does not expect these undistributed profits to be reinvested and taxable in the near future.

Deferred IT and ESPS

The analysis of the effective rate of the Institution without its subsidiaries as of December 31, 2020, is analyzed as follows:

2020	Tax base	Tax at 30%	Effective rate	ESPS at 10%
Income before taxes	$ (7,015)	$ 2,104	(30%)	$ 701
Allocation to current tax:				
Adjustment for inflation effects	(1,094)	328	(5%)	109
Valuation of financial instruments	197	(59)	1%	(20)
Non-deductible expenses	175	(53)	1%	(17)
Allowance for loan losses, net	1,382	(415)	6%	(138)
Deferred ESPS	(29)	9	0%	3
Trusts without business activity	4,138	(1,241)	18%	(414)
Others, net	827	(248)	3%	(83)
Current tax and ESPS	(1,419)	-	(6%)	-
Tax effect of consolidated trusts	7	-	-	-
Income tax and ESPS in consolidated results	$ (1,412)	-	-	-

2020	Tax base	Tax at 30%	Effective rate	ESPS at 10%
Allocation to deferred tax: (IT 30% and ESPS 10%)				
Valuation of financial instruments	$ (2,059)	$ 618	(9%)	$ 206
Provisions and others	18	(5)	0%	(2)
Allowance for loan losses to be deducted	(304)	91	(1%)	31
Interest on derivative financial instruments (Swaps)	(530)	159	(2%)	53
Tax los	(1,426)	428	(6%)	-
Others	(44)	13	0%	4
Deferred tax and ESPS	$ (4,345)	$ 1,304	(18%)	$ 292
Deferred tax and ESPS effect of consolidated trusts [1]		(788)		(263)
Deferred income tax and ESPS		$ 516		$ 29

The following is an analysis of the effective tax rate of the Institution without subsidiaries for the fiscal year ended December 31, 2019:

2019	Tax base	Tax at 30%	Effective rate	ESPS at 10%
Income before taxes	$ (4,517)	$ 1,355	(30%)	$ 452
Allocation to current tax:				
Adjustment for inflation effects	(382)	115	(3%)	38
Valuation of financial instruments	82	(25)	1%	(8)
Non-deductible expenses	117	(35)	1%	(11)
Allowance for loan losses, net	123	(37)	1%	(12)
Deferred ESPS	(129)	39	(1%)	13
Deduction of paid ESPS	(332)	100	(2%)	-
Others, net	346	(105)	2%	(35)
Current tax and ESPS	(4,692)	-	(31%)	-
Tax effect of consolidated trusts		-		-
Income tax and ESPS in consolidated results		-		-

2019	Tax base	Tax at 30%	Effective rate	ESPS at 10%
Allocation to deferred tax: (IT 30% and ESPS 10%)				
Valuation of financial instruments	$ 28	$ (8)	0%	$ (3)
Provisions and others	297	(89)	2%	4
Allowance for loan losses to be deducted	(28)	8	0%	3
Interest on derivative financial instruments (Swaps)	144	(43)	1%	(14)
Tax loss	(1,554)	466	(10%)	-
Others	11	(3)	0%	(1)
Deferred tax and ESPS	$ (1,102)	$ 331	(7%)	$ (11)
Deferred tax and ESPS effect of consolidated trusts (1)		423		140
Deferred income tax and ESPS		$ 754		$ 129

(1) The Institution acting as trustee, in accordance with article 13 of the income tax law, when business activities are carried out through a trust, will determine under the terms of title II of tax law, the taxable income or tax loss for such activities in each fiscal year and fulfill the obligations, including the obligation to make provisional tax payments on behalf of trustees.

The tax effects of tax on earnings and ESPS of temporary differences that generate significant portions of deferred tax assets and ESPS as of December 31, 2020 and 2019 of the Institution without subsidiaries are summarized below:

	2020		2019	
	IT	**ESPS**	IT	ESPS
Deferred asset (liability):				
Valuation of financial instruments	**$ 14**	**$ 5**	$ (568)	$ (189)
Provisions and others	**(36)**	**(12)**	40	13
Allowance for loan losses to be deducted	**(1,999)**	**(666)**	2,706	902
Interest on derivative financial instruments (Swaps)	**178**	**59**	(337)	(112)
Tax loss	**(894)**	**-**	466	-
Defined benefit measurements	**(274)**	**(92)**	721	240
Others	**(27)**	**(9)**	5	2
Deferred income tax and ESPS	**$ (3,038)**	**$ (715)**	$ 3,033	$ 856

Other considerations:
In accordance with Mexican tax law, the tax authorities may examine transactions carried out during the five years prior to the most recent income tax return filed.

According to the IT Law, corporations carrying out transactions with related parties, whether domestic or foreign, are subject to limitations and tax obligations, as to the determination of the transaction prices, since these prices must be similar to those that would be used in arm's-length transactions.

For the years ended December 31, 2020 and 2019, a base was generated for employee profit sharing of $0 and $0, respectively, which differs from the Income Tax base of every year, due to the payment of ESPS made and the amount of other benefits paid to employees that are not totally deductible for income tax purposes.

Tax losses carryforwards
Tax losses carryforwards can be realized in the ten following fiscal years against taxable income. Those carryforwards are subject to being restated by using the National Consumer Price Index (NCPI).

A tax loss was incurred in tax year 2020 and 2019, which was restated and amounts to $1,436 and $1,640 as of December 31, 2020 and 2019, respectively.

22. STOCKHOLDERS' EQUITY

Capital stock
As of December 31, 2020, the Institution's capital stock is comprised as follows:

Series "A"

	Capital contribution certificates		Nominal value (pesos)	Amount		Total
	Series "A"	Series "B"		Series "A"	Series "B"	
Subscribed capital	**31,548,000**	**16,252,000**	**$ 50**	**$ 1,577**	**$ 813**	**$ 2,390**
Unissued capital	**(1,431,591)**	**(737,484)**	**50**	**(71)**	**(37)**	**(108)**
Suscribed and paid capital	**30,116,409**	**15,514,516**	**$ 50**	**$ 1,506**	**$ 776**	**$ 2,282**
Increase from restatement						**7,011**
Total stockholders' equity						**$ 9,293**

The Institution's capital stock will be represented in 66% by "A" Series and 34% by "B" Series. The "A" Series may only be subscribed by the Federal Government and "B" Series by Federal Government, Mexican individuals or companies. As of December 31, 2020 and 2019, the Federal Government owns 66% of the "A" series in both years, and 33.94% of "B" series, respectively.

On March 17, 2020, the Ministry of Finance and Public Credit issued official letter No. 368.-VI-A.-074 addressed to the Institution, where a simple copy of the certificate of delivery-reception of the CAP titles that represent the investments of the Federal Government is delivered, which represent investments by the Federal Government to the TESOFE for its custody and receipt of the CAPs of series "A" and "B", issued on November 28, 2019. Moreover, a plain copy of the series "A" and "B" CAPs was delivered signed on March 10, 2020. The foregoing represents the paid-in capital stock increase, arising from the contribution to capital made by the Ministry of Finance and Public Credit on December 31, 2019, in the amount of $1,376, applied to paid-in capital stock in the amount of $91, and additional paid-in capital of CAPs in the amount of $1,285.

Contributions for future capital stock increases

As of December 31, 2020 and 2019, its value amounts to $13,178 and $7,264, respectively. On December 31, 2020, the Ministry of Finance and Public Credit (SHCP - for its acronym in Spanish) made a capital contribution in the amount of $7,290. At the Board of Directors Meetings, the contribution of capital stock was authorized in the amount of $7,290. The Institution's Management will make the necessary arrangements to have the contribution to capital stock authorized, required to be able to support the volume of development and investment banking operations, which includes investments in capital risk, as well as maintains a prudential level of capitalization for the 2020 year end.

On December 31, 2019, the Ministry of Finance and Public Credit (SHCP - for its acronym in Spanish) made a contribution to the Institution for future capital increases in the amount of $5,888. On the next Board of Directors, the Management of the Institution will make the necessary arrangements to have the contribution to capital stock authorized in the amount of $5,888, required to be able to support the volume of development and investment banking operations, which includes investments in risk capital, while maintaining a prudential level of capitalization for the 2019 year end.

During its ordinary meeting held on October 30, 2018, the Board of Directors authorized the Management of the Institution, to carry out the necessary arrangements to request to the Federal Executive, through the Ministry of Finance and Public Credit (SHCP), an increase of capital stock amounting to $1,376, required to be able to support the volume of operations and investment banking, which includes the investments of venture capital, while maintaining a level of prudential capitalization for the year ended 2018; such increase was received in the month of December 2018.

Paid stock premium

This premium applies to payments made by holders of the Equity Contribution Certificates of series "B" certificates. The balance of the premiums paid as of December 31, 2020 and 2019 amounts to $15,510 and $14,225, respectively. As mentioned in this note, under the capital stock section, during the year 2020 the paid stock premium was increased by $1,285.

Capital reserve

The net income of the year, when generated, is subject to the legal Provision that requires that 5% of it be transferred to the legal reserve, until it is equal to 20% of the share capital, except in the case of the existence of accumulated losses, which must be absorbed in their entirety before a legal reserve is provided for.

The nominal value of these capital reserves as of December 31, 2020 and 2019, amounts to $314 in both years and its restated value amounts to $1,730 in both years.

Dividends declared

The dividends paid to individuals and residents abroad shall be subject to an additional tax of 10%, which is considered final and must be withheld by entities that distribute such dividends. The rule applies only to dividends payment from earnings generated beginning January 1, 2014.

For the years ended December 31, 2020 and 2019 there were no dividends declared.

Comprehensive income

The comprehensive income reported in the consolidated statements of changes in stockholders' equity, represents the result of total activity during the year and includes the net income, the effect of the valuation of investments securities available for sale for $74 and $5 as of December 31, 2020 y 2019, respectively, as well as the effect on valuation in associated and affiliated companies and the remeasurements of defined employee benefits for $635 and $1,358 as of December 2020, respectively, $1,125 and $(1,142) as of December 31, 2019, respectively.

Restrictions on stockholders' equity

The Lending Institutions Law requires an appropriation of 10% of net income for the year to statutory reserves until such reserves reach an amount equal to the paid in capital stock.

In case of contributions or retained earnings distributions to stockholders, income tax is due on the portion of the contributions or distributions exceeding the taxable basis. As of December 31, 2020, the Capital contribution account of the Institution (Cuenta de Capital de Aportación or CUCA) and the net taxable income account (Cuenta de Utilidad Fiscal Neta or CUFIN), amounted to $66,700 and $15,894, respectively.

The retained earnings of subsidiaries may not be distributed to the Institution's stockholders until dividends are collected.

Capitalization (unaudited)

As of December 31, 2020, the preliminary calculation of the capitalization ratio was set at 18.52%, which is comprised starting with net capital amounting to $34,385 and total risk-weighted assets amounting to $185,635.

a) Basic and supplementary capital

The Institution's net capital consists of $34,385 of basic capital. Pursuant to the application of the portfolio rating methodology, supplementary capital is zero, which implies that net capital is equal to the basic capital, which in turn equals the fundamental capital.

b) Assets adjusted for market risks

Assets adjusted for market risks amount to $49,190 and are equivalent to a capital requirement of $3,935, which is integrated as follows:

Exposed positions to market risk by risk factor

Concept	Risk weighted assets	Capital requirement
Transactions in Mexican pesos at nominal rates	$ 11,326	$ 906
Transactions with debt securities in pesos with premium and adjustable rates	6,950	556
Transactions in Mexican pesos at real rates or denominated in UDI's	8,264	661
Positions in UDI's or with returns indexed to the NCPI	44	4
Foreign currency transactions at nominal rates	7,766	621
Foreign currency positions or with exchange rate indexed returns	60	5
Gold positions	-	-
Equity positions or with returns indexed to the price of a single share or group of shares	14,779	1,182
	$ 49,189	$ 3,935

c) Assets adjusted for credit risks

Assets adjusted for credit risk amount to $125,251 and are equivalent to a capital requirement of $10,020. Assets adjusted for risk related to borrowers and deposits amount to $94,876 which are equivalent to a capital requirement of $7,590, and are comprised as follows:

Weighted assets subject to credit risk by risk group

Concept	Risk weighted assets	Capital requirement
Group III (weighted at 20%)	$ 16,170	$ 1,294
Group III (weighted at 50%)	7,020	562
Group III (weighted at 100%)	10	1
Group III (weighted at 120%)	2	-
Group III (weighted at 150%)	6	1
Group IV (weighted at 20%)	933	75
Group VI (weighted at 100%)	518	41
Group VII (weighted at 20%)	10,408	833
Group VII (weighted at 50%)	2,139	171
Group VII (weighted at 100%)	18,708	1,497
Group VII-B (weighted at 100%)	38,443	3,075
Group VIII (weighted at Group VI)	4	-
Group IX (weighted at 100%)	515	41
	$ 94,876	$ 7,591

d) Assets adjusted for operational risks

Assets adjusted for operational risks amounted to $11,194 and are equivalent to a capital requirement of $895.

Weighted assets subject to operational risk

Used method	Assets weighted by risk	Capital requirements
Basic benchmark	$11,194	$895

Average market and credit risk requirement of the last 36 months	Annual average of positive net income for the past 36 months
$14,632	$5,970

The Appendix 1-O of the Provisions establishes the requirements for the disclosure of information relating to capitalization, which shall contain, in addition to those listed in the preceding subparagraphs, the following sections:

1. Net capital is presented in accordance with the international format of revelation contained in the document "Format of capital integration without considering transitory application of regulatory adjustments".

Ref.	Tier 1 Common Stock (CET 1): Instruments and reserves	Amount
1	Common shares that qualify for Tier 1 common stock plus its applicable premium	$ 37,981
2	Prior year income	5,817
3	Other elements of comprehensive income (and other reserves)	(3,930)
6	**Tier 1 common stock before regulatory adjustments**	$ 39,868
	Tier 1 common stock: regulatory adjustments	
15	Defined benefits pension plan	17,609
21	Deferred income taxes in favor from temporary differences (amount that exceeds the 10% threshold, net of taxes deferred charges)	715

26	Domestic regulatory adjustments		4,769
A	From which Other elements of comprehensive income (and other reserves)		-
D	From which: Investments in multi-lateral agencies		652
F	From which: Investments in capital risk		3,881
G	From which: Investments in mutual funds		236
28	**Total regulatory adjustments to tier 1 common stock**	$	5,484
29	**Tier 1 Common Stock (CET 1)**	$	34,384
	Additional tier 1 capital: regulatory adjustments		
44	**Additional tier 1 capital (AT1)**	$	-
45	**Tier 1 Stock (T1 = CET1 + AT1)**	$	34,384
	Tier 2 capital: instruments and reserves		
51	**Tier 2 capital before regulatory adjustments**		-
	Tier 2 Capital: regulatory adjustments		
59	**Total Capital (TC = T1 + T2)**	$	34,384
60	**Assets weighted by total risk**	$	185,635
	Capital ratios and supplements		
61	Common tier 1 capital (as a percentage of the weighted assets by total risk)		18.52%
62	Tier 1 capital (as a percentage of the weighted assets by total risk)		18.52%
63	Total capital (as a percentage of the weighted assets by total risk)		18.52%
64	Institutional specific supplement (it should at least consist of the common tier 1 capital requirement, plus the capital conservation buffer, plus the countercyclical buffer, plus the G-SIB buffer stated as a percentage of the total weighted risk assets)		7.00%
65	of which: Conservation capital supplement		2.50%
68	Tier 1 common capital available to cover supplements (as a percentage of the total weighted risks assets)		11.52%

2. Ratio of net capital with the balance sheet:

Balance sheet amounts (expressed in millions of pesos)		
Balance sheet Items Reference	**Balance sheet items (unconsolidated)**	**December 2020**
	Asset:	
BS1	Cash and cash equivalents	76,788
BS2	Margin accounts	165
BS3	Investment securities	244,677
BS4	Debtors on repurchase/resell agreements	-
BS5	Securities lending	-
BS6	Derivatives	9,372
BS7	Valuation adjustment from hedging of financial assets	4,934

BS8	Total loan portfolio (net)	216,168
BS9	Receivable benefits on securities trading	
BS10	Other receivables (net)	37,233
BS11	Foreclosed assets (net)	-
BS12	Property and equipment (net)	7
BS13	Permanent investments */	29,252
BS14	Long-lived assets available for sale	
BS15	Deferred income taxes (net)	3,753
BS16	Other assets	806
	Liabilities:	
BS17	Deposit funding	259,422
BS18	Bank and other borrowings	50,404
BS19	Creditors on repurchase/resell agreement	247,648
BS20	Securities lending	
BS21	Collateral sold or furnished as a guarantee	-
BS22	Derivatives	14,121
BS23	Valuation adjustments of hedging financial liabilities	4,150
BS24	Debentures in securities trading	
BS25	Other accounts payable	6,834
BS26	Outstanding unsecured obligations	
BS27	Deferred income taxes (net)	-
BS28	Deferred credits and prepayments	72
	Stockholders' equity:	
BS29	Capital stock	37,981
BS30	Earned capital	2,523

Balance sheet amounts

Balance sheet Items Reference	Balance sheet items (unconsolidated)	
	Memorandum Accounts:	
BS31	Guarantees granted	-
BS32	Contingent assets and liabilities	87,558
BS33	Loan commitments	131,369
BS34	Assets placed in trust or mandate	1,590,822
BS35	Federal Government Financial Agent	389,477
BS36	Assets in custody or administration	539,714
BS37	Collateral received by the entity	3,098
BS38	Collateral received and sold or pledged as a guarantee by the entity	3,100
BS39	Investment banking transactions on behalf of third party (net)	57,781
BS40	Interest earned but not collected arising from past due – loan portfolio	1
BS41	Other memorandum acccounts	707,194

*/ Includes other investments.

Regulatory items considered for the calculation of the net capital components.

Identifier	Regulatory items considered for the calculation of net Capital	Reference to the disclosure form of the capital integration of section 1 to this exhibit	Amount of combination with notes to regulatory concepts considered for the calculation of net capital components	Reference(s) of the balance sheet item and the related amount to the regulatory concepts considered for the calculation of net capital from the aforementioned reference
	Assets:			
3	Deferred income taxes (in favor) from losses and tax credits	10	715	
15	Investments in multi-lateral agencies	26 - D	652	
17	Investment in risk capital	26 - F	3,881	
18	Investments in mutual funds	26 - G	236	
22	Investments of the defined benefits pension plan	26 - N	17,609	Informative uncomputed data main
	Shareholders' equity:			
34	Paid in capital in accordance with exhibit 1-Q	1	$ 37,981	

Identifier	Regulatory items considered for the calculation of net capital	Reference to the disclosure form of the capital integration of section 1 to this exhibit	Amount of combination with notes to regulatory concepts considered for the calculation of net capital components	Reference(s) of the balance sheet item and the related amount to the regulatory concepts considered for the calculation of net capital from the aforementioned reference
35	Prior year income	2	5,817	
37	Other capital earned elements other than the foregoing	3	-3,930	

41	Accumulated effect on translation	3, 26 - A	N/A
42	Net income from non-monetary assets holding	3, 26 - A	N/A
	Regulatory concepts not considered in the balance sheet:		
45	Profit or increase in the value of the assets by acquisition of securitization positions (Originating Institutions)	26 - C	N/A
46	Transactions that contravene the Provisions	26 – I	N/A
47	Relevant related parties transactions	26 – M	N/A
48	Adjustment for capital recognition	26 – O, 41, 56	N/A

3. Main characteristics of securities composing stockholders' net equity (Series A)

Ref.	Characteristics	Option
1	Issuer	**Nacional Financiera, Sociedad Nacional de Crédito**
2	Identifier ISIN, CUSIP or Bloomberg	In conformity with Article 30 of Credit Institutions Law, Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, is governed by its internal regulations, holders of Series "A", capital contribution certificates, if applicable will have the rights set forth in article 35 of the Lending Institutions Law and article 12 of internal regulations of Nacional Financiera
3	Legal framework	
	Regulatory treatment:	
4	Capital level with transitory status	
5	Capital level without transitory status	Basic 1
6	Level of instrument	Lending institution without consolidating subsidiaries

Ref.	Characteristics	Options
7	Type of instrument	**"A" Series certificates of capital contribution**
8	Recognized amount in regulatory capital	66% in accordance with (3)
9	Nominal value of the instrument	50.00
9A	Instrument currency	**Mexican pesos**
10	Accounting classification	**Capital**
11	Issuance date	

12	Instrument term	**Perpetuity**
13	Maturity date	**Without maturity**
14	Prepaid expense clause	**No**
15	First prepaid expense date	
15A	Regulatory or tax events	
15B	Liquidation prices of prepaid expense clause	
16	Subsequent prepaid expense dates	
	Yields / dividends	
17	Type of yield / dividend	Variable
18	Interest rate / dividend	Variable
19	Dividend Cancellation clause	No
20	Discretionary nature in the payment	Completely discretionary
21	Interest increase clause	No
22	Yield / dividend	Noncumulative
23	Instrument convertibility	Nonconvertible
24	Convertibility conditions	
25	Degree of convertibility	
26	Conversion rate	
27	Type of instrument convertibility	
28	Type of financial instrument of convertibility	
29	Issuer of instrument	
30	Write - down clause	
31	Write - down conditions	
32	Degree of write - down	
33	Temporary status of write – down	
34	Temporary value write - down mechanism	
35	Subordinated position in case of liquidation	
36	Nonperformance characteristics	
37	Description of nonperformance characteristics	

4. Capital management.

The framework for risk management must facilitate and support the measurement and monitoring of quantifiable risks, ensuring solid risk measurements to establish the Institution's risk appetite and generate value.

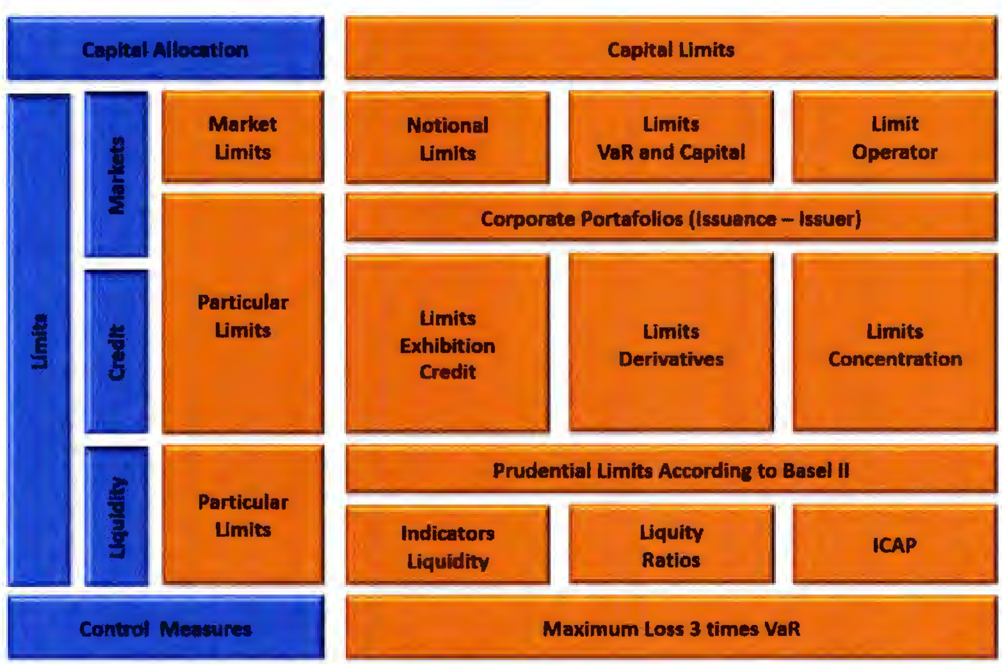
To ensure that risk management is a decision-making support tool, models and methodologies are established, that allow for measuring, monitoring and controlling the different types of risk to which the Institution is exposed. These risk measures should also contribute to the definition of business strategies and support decision-making of operation.

A fundamental point of departure for establishing limits is the definition of a business model that describes the exposure to different types of risk that generate the different operating units in the Institution.

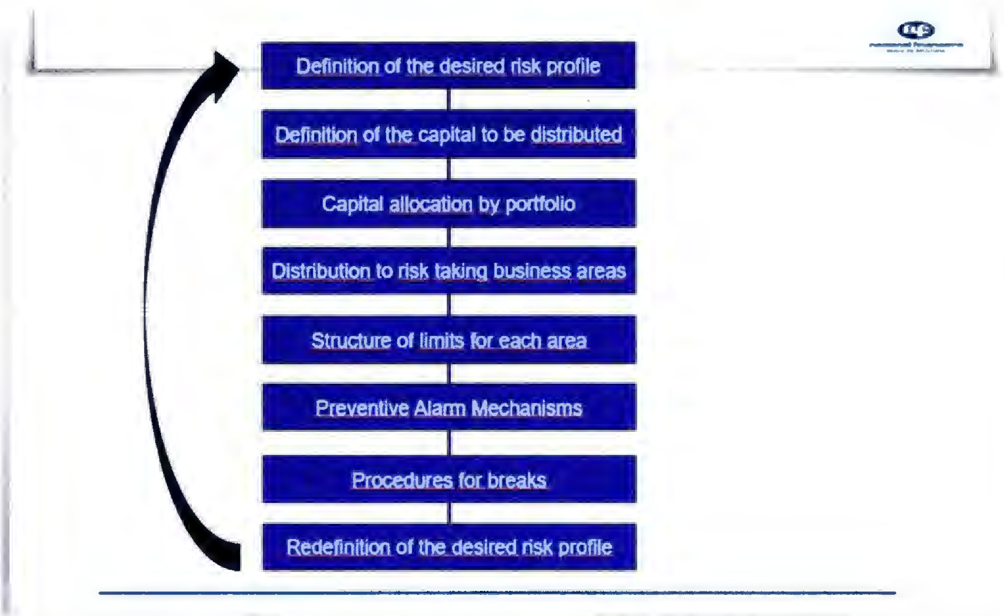
- Treasury: it operates as the central unit that manages the resources of the Institution. It is responsible for establishing transfer prices, controlling liquidity levels and control the risks of balance sheet. This unit incurs market, credit and liquidity risks, and in the case of Nacional Financiera, is also responsible for the deposit-funding unit.

- Operation desks: their main function is to generate revenues through the operation in different financial markets, (money, foreign exchange, capital and foreign currency bonds).
- Asset units: are those that encompass the promotion activities of the Institution and are derived from credit activities of Nacional Financiera. These activities are the main generators of credit risk.

Based on the aforementioned, the Institution has a solid structure of global and specific limits for exposure to different types of risk considering the consolidated risk, breaking down by unit of business, factor risk and cause, as presented in the following diagram:

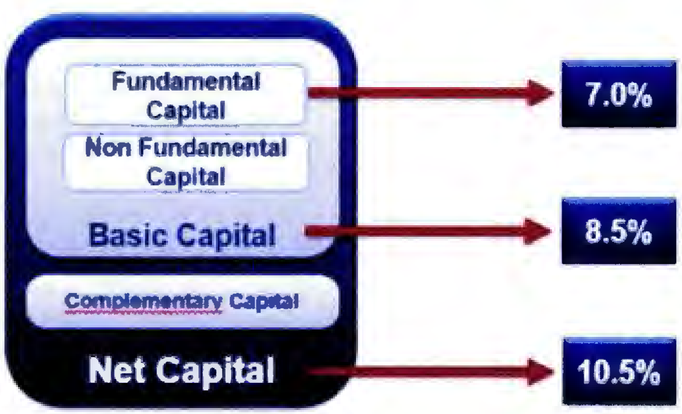


The diagram presented above, has a strong relevance to the capital limits, for which the following process is followed to determine limits:



The capital allocation process is derived from the regulatory capital, which is regulated based on capitalization rules described in Appendix 9. Based on these concepts, the capital distributable is determined, which is the capital that the Institution has to deal with the risks that its operations consume.

Basilea III establishes that the Institution has three indicators of solvency, where ICAP is the most restrictive, given the fact the requirement changed from 8.0% to 10.5%. It is precisely this restriction that establishes the appetite for risk through the limits of capital, in order to ensure if, 100% of the limits are consumed, and in stress situations, the level of capitalization is in no case less than 10.5%.



This increase of 250 basis point in the ICAP is a strong regulator that will replace the capital volatility for risk profile and operational risk previously held.

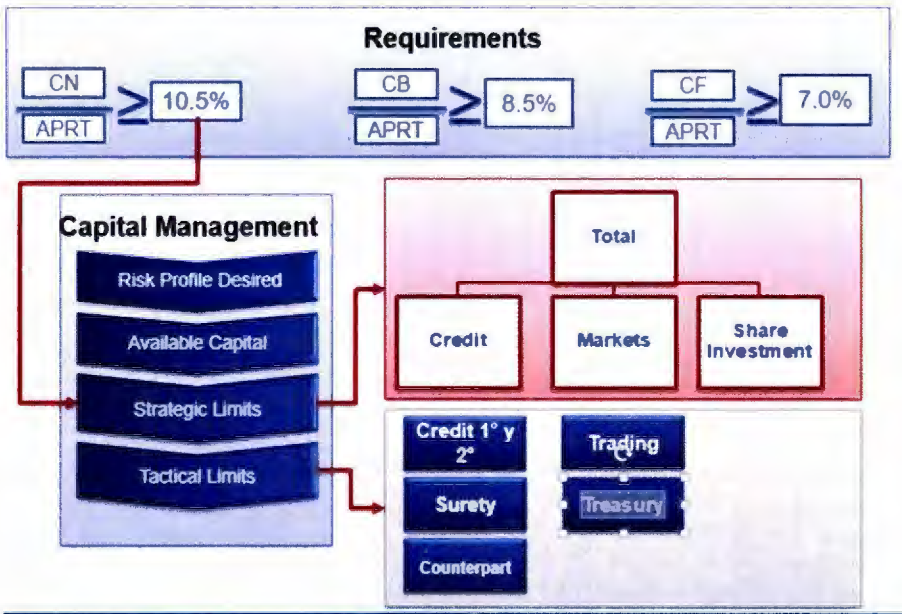
Capital limits structure

The Institution's capital management considers a limits structure with two levels of allocation:

a) A strategic level authorized by the Board of Directors.

b) A tactical level that is regulated by the IRMC, through reallocations or excess of limits, as well as the business areas management. Additionally, Deputy General Managers involved in the business areas can also propose reallocations of the limits, with the approval of the Risk Director, who subsequently informs the CAIR.

In summary the Institution has:



It is important to mention that, within the strategic structure of these limits, operational risk is not included, since this does not originate from the discretionary risk taking, i.e., that it is implicit in the operation of the Institution itself. Due to the above, there is a regulator for operational risk that does not compute for the capital limits, but that is considered in the computation of the capitalization level. Nonetheless, in terms of operational risk, the identification, measurement, monitoring, control and mitigation of the risks to which the Institution is exposed are performed.

Considering the above, at the end of December 2020, the capitalization ratio was 18.52%. and the capital limit recorded a global consumption of 77.5%.

There are three basic scenarios:

1. If capital limits are utilized at 100%, the level of funding would remain above the 10.5% required.
2. If, under the current structure, there is an adverse event of default or volatility in the markets affecting capital, there is sufficient capacity to maintain the ICAP above 10.5%.
3. The combination of the above events, i.e., capital limits utilized at 100% and an adverse event with an impact on capital, would also allow the ICAP to be maintained above the minimum level required.

Finally, in order to have the capacity to obtain resources and continue operating under a stress scenario, in which the Institution's capital suficiency is compromised without default of the minimums established by the authorities, the Treasury Department will obtain in the markets, the necessary resources in the best terms of cost and term, based on the guidelines established by the Institution's Management.

In order to manage liquidity risks, the treasury will regulate the operational execution in accordance with strategies that will be aligned with the Institution's Management objectives and will be responsible for detonating the contingent procedures for the management of liquidity, and in some cases, the procedures established in the "Business Continuity Plan" will apply.

The treasury department will inform the Risk Management Officer of any liquidity contingency situation.

23. MEMORANDUM ACCOUNTS

Contingent asset and liabilities

As of December 31, 2020 and 2019, this caption amounts to $77,729 and $80,109, respectively, integrated as follows:

		2020		2019
Contingent liabilities:				
Guarantees granted (1)	$	**84,253**	$	85,463
Unreimbursed guarantees paid covered by counter guarantee (2)		**15,258**		16,752
Receivables on claims		**218**		212
Acquired commitments		**1,766**		1,730
Contingency for portafolio without resource of Fisso 80139 (6)		**2,528**		1,911
Subtotal		**104,023**		106,068
Contingent assets:				
Counterguarantee received from the counterguarantee trust for enterprise financing (3)	$	**6,620**		7,778
Recoverable guarantees paid covered by counterguarantors (4)		**15,258**		16,752
Guarantees paid pending of recovery without counterguarantee (5)		**4,416**		1,429
Subtotal		**26,294**		25,959
Total	$	**77,729**	$	80,109

(1) In this caption, the Institution has mainly guarantees granted through Fondo para la Participación de Riesgos and Fondo para la Participación de Riesgos en Fianzas, which as of December 31, 2020 and 2019, both present an amount of guarantees granted for $81,746 and $81,863, respectively. The spread as of December 31, 2020 and 2019, for $2,507 and $3,600, respectively, correspond to selective guarantees granted directly by the Institution. These guarantees represent the amount of the responsibilities assumed by the Institution to guarantee financial intermediaries the recovery of their loan portfolio.

(2) The Institution's contingent obligation to reimburse, mainly to the counter-guarantee Trust for Corporate Financing, the amount of the guarantees paid, has been recorded in this caption which counted with the counter-guarantee and which are in the process of recovery by bank and non-bank financial intermediaries.

(3) Fondo para la Participación de Riesgos reduces the Institution's contingency through the counter-guarantee received from Fideicomiso de Contragarantía para el Financiamiento Empresarial, the promoter of granting of credits for specific purposes, which has assigned resources for these purposes for \$6,620 and \$7,778, as of December 31, 2020 and 2019, respectively. These funds ensure, the recovery up to these amounts of the guarantees exercised by the financial intermediaries, who assume the commitment of negotiating the recovery of the credits of their final borrowers judicially and out-of- court.

In addition to this counter-guarantee, the Fund has created a allowance for loan losses, for \$2,828 and \$3,906, as of December 31, 2020 and 2019, respectively, in accordance with the Provisions of the Banking Commission.

With the counter-guarantee received, as well as with the level of preventive allowance created, the Institution considers that the exposure is covered, based on the experience observed in the guarantee program.

(4) The contingent right of the Institution to recover the amount of the guarantees paid that had a counter-guarantee and were covered by the Fideicomiso de Contragarantía para el Financiamiento Empresarial, and which are in the process of recovery by bank and non-bank financial intermediaries.

(5) In the caption of paid guarantees pending recovery without counterguarantee, is recognized the amount of guarantees honored by the Institution that are in the process of recovery by financial intermediaries and that did not have the coverage of Fideicomiso de Contragarantía para el Financiamiento Empresarial.

(6) The item of contingency for portfolio without recourse corresponds to guarantees not exercised by the financial intermediary.

Credit commitments

As of December 31, 2020 and 2019, the balance of authorized credit facilities and lines of guarantees granted to financial intermediaries that have not been withdraw amounted \$299,403 and \$282,255, respectively. As of December 31, 2020, \$131,369 correspond to credit and \$168,034 to lines of guarantee granted, respectively, where as of December 31, 2019, \$180,119 correspond to credit and \$102,136 to lines of guarantees granted, respectively.

Assets placed in trust or mandates and financial agent for the Federal Government

The Institution's trust activity recorded in memorandum accounts as of December 31, 2020 and 2019, as well as operations as financial agent for the Federal Government, are integrated as shown below:

		2020		2019
Investments trusts	**\$**	**17,951**	\$	16,639
Administrative trusts		**1,535,793**		1,679,811
Guarantee trusts		**18,837**		16,917
		1,572,581		1,713,367
Mandates		**14,444**		13,909
		1,587,025		1,727,276
Financial Agent of the Federal Government		**389,477**		368,085
Total	**\$**	**1,976,502**	\$	2,095,361

Investment and administrative trusts refer to entities with their own legal incorporation, independent from the Institution. These balances represent the valuation of Trust Assets which, overall, represent assets valued with distinct accounting practices, and which essentially represent neither rights of the entity, nor the contingency to which the Institution is subject in the event of nonperformance in its role as trustee.

Guarantee trusts correspond to entities that maintain loans, securities, real estate, etc., as part of its trust assets, which serve as collateral for the settlement of financing received from other lending institutions by the trustees of the same. The Institution only performs the fiduciary function in such entities.

The Institution's revenue from its trustee activities as of December 31, 2020 and 2019, amounted to $446 and $518, respectively.

As of December 31, 2020 and 2019, the trust accounts include a balance of $370 and $355, respectively, which corresponds to the assets of Fideicomiso de Recuperación de Cartera (FIDERCA), which manages doubtful accounts that were originally of the Institution and that in the year of 1996 were transferred to the Federal Government. The Institution currently holds the respective trustee rights.

The Institution incorporated the trust for the strengthening of its capital in compliance with the Provisions of article 55 Bis of Lending Institution Law and in accordance with the general rules for Domestic Lending Institutions and Development Banking Institutions published on October 24, 2002 in the Official Federal Gazette.

Assets in custody or administration

As of December 31, 2020 and 2019, this caption includes, trading securities and credit operations, as well as the securities issued by the Institution and managed on behalf of customers, as shown below:

		2020		2019
Custody	**$**	**9,790**	$	9,921
Pledge securities		**224,520**		228,277
Securities in administration		**305,403**		280,270
Subsidiaries		**19,908**		19,491
	$	**559,621**	$	537,959

Fees collected by the Institution for this type of activities for the years ended December 31, 2020 and 2019, amounted to $7 and $8, respectively.

Other memorandum accounts

As of December 31, 2020 and 2019, the balances of other memorandum accounts are comprised as follows:

		2020		2019
Guarantees paid reported by brokers as uncollectible without a counterguaranty (a)	**$**	**288**	$	267
Classification by degree of risk of the loan portfolio		**307,126**		312,850
Loans obtained pending for disbursements (Note 18)		**2,705**		2,502
Other memorandum accounts (b)		**411,138**		378,994
Total	**$**	**721,257**	$	694,613

(a) Correspond to the amounts of unrecovered guarantees on which the collection procedures have been exhausted by the intermediaries and which did not have a counterguarantee.

(b) Other memorandum accounts are included for control of renewed and restructured loans, uncollectible credits, uncollectible loans applied against the provision, mortgage-backed loans, certificates and coupons to be incinerated, VAT recorded by states, portfolio recovery, issue of provisional certificates, foreclosed assets written-off preventively, control of amounts contracted in repurchase/resell agreements and derivative instruments, commitments, allowance for loan losses from financial brokers and various unspecified items.

24. ADDITIONAL INFORMATION ON OPERATIONS AND SEGMENTS

Segment information (unaudited)-

The factors used to identify the business segments considered the nature of the activities carried out; the existence of specific administrators for those activities, the generation of revenues and expenses thereof as well as the monitoring regularly performed on the results generated that are presented regularly to the Board of Directors of the Institution.

The market and treasury segment include investments carried out in the money, capital, exchange and treasury markets.

The loan portfolio placed directly with the public and private sector, is considered for the first tier credit segment while the loan portfolio channeled through banking and non-banking financial intermediaries is considered for the second tier credit segment.

Guarantees granted to banks and non-bank financial intermediaries are included in the credit guarantees segment. The balances of this segment are presented in memorandum accounts and as of December 31, 2020 and 2019, amount to $77,129 and $80,109, respectively.

The balances of the Financial Agent segment correspond to activities carried out by mandate of the Federal Government, to manage on its behalf, resources obtained from international financial organizations, and as of December 31, 2020 and 2019, amounted to $389,477 and $368,094, respectively, of which $389,465 and $368,085, respectively, are recorded in memorandum accounts.

The trustee segment includes administrative services for proprietary an external trusts, which amount to $1,572,581 and $1,691,894 as of December 31, 2020 and 2019, respectively, which are presented in memorandum accounts

Investment banking and balances of subsidiaries are included in the "Other areas segment". Commissions for structuring of credits, stock market guarantees, as well as the participation in venture capital for public and private companies are included in investment banking.

As of December 31, 2020 and 2019, the assets, liabilities and net income of the main operations by business segments of the Institution are presented below:

2020	Assets		Liabilities and equity		Net income	
Business Segments	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Markets and treasury	**$ 341,081**	**56.4**	**$ 341,081**	**56.4**	**$ 1,605**	**(37.9)**
First tier credit	**51,660**	**8.5**	**51,660**	**8.5**	**749**	**(17.8)**
Second tier credit	**166,609**	**27.5**	**166,609**	**27.5**	**514**	**(12.1)**
Loan guarantees	-	-	-	-	**1,802**	**(42.6)**
Financial agent	-	-	-	-	**47**	**(1.1)**
Trustee	-	-	-	-	**(15)**	**0.3**
Other areas	**45,699**	**7.6**	**45,699**	**7.6**	**470**	**(11.1)**
Retirement benefit and expense	-	-	-	-	**(9,400)**	**222.3**
Total	**$ 605,049**	**100**	**$ 605,049**	**100**	**$ (4,228)**	**100**

2019	Assets		Liabilities and equity		Net income	
Business Segments	Amount	%	Amount	%	Amount	%
Markets and treasury	$ 312,063	56.6	$ 312,063	56.6	$ 1,718	(75.6)
First tier credit	51,030	9.3	51,030	9.3	1,698	(74.8)
Second tier credit	165,637	30.1	165,637	30.1	1,284	(56.5)
Loan guarantees	-	-	-	-	1,426	(62.8)
Financial agent	9	-	9	-	86	(3.8)
Trustee	-	-	-	-	(43)	1.9
Other áreas	22,191	4.0	22,191	4.0	179	(7.9)
Retirement benefit and expense	-	-	-	-	(8,620)	379.50
Total	$ 550,930	100	$ 550,930	100	$ (2,272)	100

For the years ended December 31, 2020 and 2019, income by business segment is analyzed as follows:

2020	**Markets and treasury**	**First tier credit**	**Second tier credit**	**Loan guarantees**	**Financial agent**	**Trustee**	**Other areas**	**Retirement benefit and expense**	**Total**
Income:									
Financial income net (a)	**$ 1,756**	**$ 862**	**$ 2,234**	**$ 7,440**	**$ 168**	**$ 183**	**$ 507**	**$ -**	**$ 13,150**
Expenses:									
Operating expense	**(327)**	**(100)**	**(499)**	**(353)**	**(120)**	**(195)**	**(50)**	**-**	**(1,644)**
Operative income	**$ 1,429**	**$ 762**	**$ 1,735**	**$ 7,087**	**$ 48**	**$ (12)**	**$ 457**	**$ -**	**$ 11,506**
Allowance for loan losses and write-offs	**(9)**	**(104)**	**(1,257)**	**(5,495)**	**(4)**	**(6)**	**(2)**	**-**	**(6,877)**
Retiree expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,015)**	**(1,015)**
Other expenses and taxes	**185**	**91**	**36**	**210**	**3**	**3**	**15**	**(8,385)**	**(7,842)**
Net income	**$ 1,605**	**$ 749**	**$ 514**	**$ 1,802**	**$ 47**	**$ (15)**	**$ 470**	**$ (9,400)**	**$ (4,228)**

2019	Markets and treasury	First tier credit	Second tier credit	Loan guarantees	Financial agent	Trustee	Other areas	Retirement benefit and expense	Total
Income:									
Financial income net (a)	$ 2,086	$ 1,048	$ 2,272	$ 4,312	$ 221	$ 195	$ 243	$ -	$ 10,377
Expenses:									
Operating expense	(375)	(109)	(612)	(415)	(142)	(249)	(66)	-	(1,968)
Operative income	$ 1,711	$ 939	$ 1,660	$ 3,897	$ 79	$ (54)	$ 177	$ -	$ 8,409
Allowance for loan losses and write-offs	(7)	770	(401)	(2,484)	(3)	(5)	(1)	-	(2,131)
Retiree expense	-	-	-	-	-	-	-	(923)	(923)
Other expenses and taxes	14	(11)	25	13	10	16	3	(7,697)	(7,627)
Net income	$ 1,718	$ 1,698	$ 1,284	$ 1,426	$ 86	$ (43)	$ 179	$ (8,620)	$ (2,272)

(a) Includes the following areas: investment banking, subsidiaries and other income (expenses) net.

(b) Includes $71 of current and deferred taxes and ESPS.

(c) Includes $852 of current and deferred taxes and ESPS.

During 2020, accumulated earnings for the markets and treasury segment amounted to $1,756, comprised of $1,630 generated by the operation of the different markets and treasury, as well as the loosing effect of $238 coming from the portfolio at maturity and the decrease of $112 corresponding to market commissions.

As of December 31, 2020, the net revenue for the first-tier credit amounted to $856, comprised of $699 of financial margin, and other net income by $157.

The accumulated financial income for the year ended December 31, 2020 for the second-tier credit amounted to $2,240, of which $2,166 correspond to financial margin and $50 to commissions and $74 to other net income associated with the credit operation.

Revenue from financial margin is $41 lower than the revenue obtained during the same period of 2019, due in part to a 4 base points (bp) reduction in the weighted financial margin, which reflected a decrease of $62. Additionally, they were charged commissions for $50.

As of December 31, 2020, the credit guarantees segment presents net financial revenue of $7,440, including $3,284 of fees charged for the guarantees granted, $3,113 by other commissions, $967 of interest on investments, and, $70 for selective guarantee fees and $8 for Fiso results. Bonds 80686 (previously 1149), as well as fees payments, taxes and commissions for $1.

As of December 31, 2020, net financial revenue of the financial Agent segment amounted to $168. Net commissions were obtained in the period for $168, which represented a decrease of $53 with respect to the commissions obtained during the previous year, which is partially explained by adjustments in the balances of the managed businesses.

During 2020, in the Trustee segment, net financial revenue amounted to $183 which decreased 12.2% compared to 2019.

Financial margin-

For the years ended December 31, 2020 and 2019, the financial margin in the consolidated statements of income is comprised is as follows:

2020

	Total	Local currency	Foreign currency
Interest income:			
Interests of performing and nonperforming loan portfolio:			
Commercial loans	$ 3,284	$ 1,479	$ 1,805
Mortgage loans	3	3	-
Loans to government entities	438	408	30
Credits granted as agent of the Federal Government			
Loans to financial entities	10,827	10,492	335
	$ 14,552	$ 12,382	$ 2,170

Interests and returns earned on investments in securities:						
Trading securities		**494**		**494**		**-**
Securities available for sale		**360**		**-**		**360**
Securities held to maturity		**782**		**752**		**30**
	$	**1,636**	**$**	**1,246**	**$**	**390**
Interests and returns earned on repurchase/resell agreements:						
Repurchase/ resell agreements	**$**	**15,621**	**$**	**15,621**		**-**
Cash and cash equivalents interest:						
Banks		**248**		**-**		**248**
Restricted cash and cash equivalents		**1,130**		**1,127**		**3**
	$	**1,378**	**$**	**1,127**	**$**	**251**
Commissions from credit operations:(return adjustment)						
Commercial loans	**$**	**99**	**$**	**99**	**$**	**-**
Interest and returns from margin accounts		**3**		**3**		**-**
Gain (loss) from hedging transactions		**(5,183)**		**(4,527)**		**(656)**
Premium on debt placement		**12**		**12**		**-**
Equity dividends, net		**29**		**29**		**-**
Gain from valuation		**1,469**		**3**		**1,466**
	$	**(3,571)**	**$**	**(4,381)**	**$**	**810**
Total interest income	**$**	**29,616**	**$**	**25,995**	**$**	**3,621**
Interest expenses:						
Interest from time deposits		**8,298**		**8,266**		**32**
Interest on securities issued		**4,651**		**3,953**		**698**
Interest paid on interbank loans and other agencies		**788**		**483**		**305**
Interests and returns paid on repurchase / resell agreements		**14,144**		**14,138**		**6**
Expenses from operations of:		**-**		**-**		**-**
Expenses from hedge trading		**(5,442)**		**(4,425)**		**(1,017)**
Discounts for debt issued		**71**		**71**		**-**
Issuance expenses due to debt placement		**19**		**11**		**8**
Loss from valuation		**94**		**94**		**-**
Total interest expenses	**$**	**22,623**	**$**	**22,591**	**$**	**32**
Financial margin	**$**	**6,993**	**$**	**3,404**	**$**	**3,589**

2019

		Total		Local currency		Foreign currency
Interest income:						
Interests of performing and nonperforming loan portfolio:						
Commercial loans	$	4,376	$	2,073	$	2,303
Mortgage loans		5		5		-
Loans to government entities		1,367		1,366		1
Credits granted as agent of the Federal Government		1		-		1
Loans to financial entities		14,015		13,565		450
	$	19,764	$	17,009	$	2,755

Interests and returns earned on investments in securities:			
Trading securities	1,606	1,606	-
Securities available for sale	321	-	321
Securities held to maturity	730	694	36
	$ 2,657	$ 2,300	$ 357

Interests and returns earned on repurchase/ resell agreements:			
Repurchase/ resell agreements	$ 21,134	$ 21,134	-
Cash and cash equivalents interest:			
Banks	337	-	337
Restricted cash and cash equivalents	1,712	1,688	24
	$ 2,049	$ 1,688	$ 361
Commissions from credit operations: (return adjustment)			
Commercial loans	109	109	-
Interest and returns from margin accounts	2	2	-
Gain (loss) from hedging transactions	(7,201)	(6,372)	(829)
Premium on debt placement	12	12	-
Equity dividends, net	18	18	-
Gain from valuation	79	7	72
	$ (6,981)	$ (6,224)	$ (757)
Total interest income	$ 38,623	$ 35,907	$ 2,716
Interest expenses:			
Interest from time deposits	13,971	13,876	95
Interest on securities issued	5,678	4,289	1,389
Interest paid on interbank loans and other agencies	943	494	449
Interests and returns paid on repurchase / resell agreements	19,266	19,265	1
Expenses from operations of:			
Expenses from hedge trading	(7,095)	(6,053)	(1,042)
Discounts for debt issued	71	71	-
Issuance expenses due to debt placement	17	8	9
Loss from valuation	1	1	-
Total interest expenses	$ 32,852	$ 31,951	$ 901
Financial margin	$ 5,771	$ 3,956	$ 1,815

Commission and fee income -

For the years ended December 31, 2020 and 2019, the commissions and fee income are analyzed as follows:

2020	**Total**	**Local currency**	**Foreign currency**
Commissions and fees earned:			
Credit operations	**$ 130**	**$ 130**	**$ -**
Assets in custody or administration	**7**	**7**	**-**
Trustee activities	**446**	**446**	**-**
Others	**3,352**	**3,282**	**70**
	$ 3,935	**$ 3,865**	**$ 70**

Commissions and fees paid:						
Loans received		**10**		**2**		**8**
Debt placement		**3**		**2**		**1**
Others (services)		**169**		**166**		**3**
	$	**182**	**$**	**170**	**$**	**12**

2019		Total		Local currency		Foreign currency
Commissions and fees earned:						
Credit operations	$	182	$	182	$	-
Assets in custody or administration		7		7		-
Trustee activities		518		518		-
Others		2,564		2,484		80
	$	3,271	$	3,191	$	80
Commissions and fees paid:						
Loans received		18		-		18
Debt placement		3		2		1
Others (services)		151		148		3
	$	172	$	150	$	22

Financial intermediation income -

For the years ended December 31, 2020 and 2019, financial intermediation income is analyzed as follows:

2020		**Total**		**Local currency**		**Foreign currency**
Gain (loss) from valuation at fair value and decrease from securities valued at cost:						
Trading securities	**$**	**(342)**	**$**	**(342)**	**$**	**-**
Derivative financial instruments for trading purposes		**(67)**		**(45)**		**(22)**
Derivative financial instruments for hedging Purposes		**(51)**		**1,821**		**(1,872)**
Collaterals sold		**-**		**-**		**-**
	$	**(460)**	**$**	**1,434**	**$**	**(1,894)**
Gain (loss) from securities purchase/sale and derivative financial instruments						
Securities available for sale	**$**	**94**	**$**	**94**	**$**	**-**
Securities held to maturity		**810**		**775**		**35**
Derivate financial instruments for trading purposes		**804**		**804**		**-**
	$	**1,708**	**$**	**1,673**	**$**	**35**
Result from currency trading	**$**	**(2,352)**	**$**	**-**	**$**	**(2,352)**
Financial intermediation income	**$**	**(1,104)**	**$**	**3,107**	**$**	**(4,211)**

2019		Total		Local currency		Foreign currency
Gain (loss) from valuation at fair value and decrease from securities valued at cost:						
Trading securities	$	39	$	39	$	-
Derivative financial instruments for trading purposes		55		33		22
Derivative financial instruments for hedging purposes		(68)		1,140		(1,208)
Collaterals sold		1		1		-
	$	27	$	1,213	$	(1,186)
Gain (loss) from securities purchase/sale and derivative financial instruments						
Trading securities	$	520	$	520	$	-
Securities available for sale		106		100		6
Securities held to maturity		7		-		7
Derivate financial instruments for trading purposes		(1,097)		(1,097)		-
	$	(464)	$	(477)	$	13
Result from currency trading	$	478	$	-	$	478
Financial intermediation income	$	41	$	736	$	(695)

Other operating income (expenses)

For the years ended December 31, 2020 and 2019, other operating income (expenses) is analyzed as follows:

2020		**Total**		**Local currency**		**Foreign currency**
Tax recoveries	**$**	**(51)**	**$**	**(51)**	**$**	**-**
Other recoveries		**101**		**101**		**-**
Estimation due to irrecoverability or difficult collection		**(3,353)**		**(3,353)**		**-**
Others foreclosed		**(2)**		**(2)**		**-**
Income from sale of foreclosed assets		**27**		**27**		**-**
Income from loans to employees		**35**		**35**		
Other items of operating income (expenses) (a)		**(7,786)**		**(7,796)**		**10**
Lease income		**28**		**28**		**-**
	$	**(11,001)**	**$**	**(11,011)**	**$**	**10**

2019		Total		Local currency		Foreign currency
Other recoveries		98		98		-
Estimation due to irrecoverability or difficult collection		(3)		(3)		-
Income from sale of property, furniture and equipment		57		57		-
Estimate for loss of foreclosed assets		(3)		(3)		-
Others foreclosed		(7)		(7)		-
Income from sale of foreclosed assets		262		262		-
Income from loans to employees		33		33		-
Other items of operating income (expenses) (a)		(7,675)		(7,698)		23
Lease income		28		28		-
	$	(7,210)	$	(7,233)	$	23

a) On December 30, 2020 and 2019, the Institution paid $7,290 and $7,697, respectively, in accordance with the official letter number 368.-143/2020 and 368.196/2019, dated on December 17, 2020 and December 30, 2019, respectively, issued by the Ministry of Finance and Public Credit, whereby the Federal Government instructs the Institution to pay based on the legal nature of use for furnishing sovereign guarantee of the Federal Government.

Administration and promotion expenses

For the years ended December 31, 2020 and 2019, the Administration and promotion expenses item is as follows:

2020	**Total**	**Local currency**	**Foreign currency**
Administration and promotion expenses	**$ 2,551**	**$ 2,551**	**$ -**
Unidentified deposits	**-**	**-**	**-**
	$ 2,551	**$ 2,551**	**$ -**

2019	Total	Local currency	Foreign currency
Administration and promotion expenses	$ (2,730)	$ (2,730)	-
Unidentified deposits (a)	(265)	(265)	-
	$ (2,995)	$ (2,995)	$ -

a) The $265 million pesos of unidentified deposits that were detected in 2019 include $226 million that are from a universe of approximately 189 items arising from a single borrower in 2016 and 2017.

Financial ratios (unaudited)

The main quarterly financial ratios of the Institution, as of and for the years ended December 31, 2020 and 2019 are as follows:

	2020			
	1st Q	**2nd Q**	**3rd Q**	**4th Q**
Delinquency index	**0.35%**	**0.34%**	**0.38%**	**0.24%**
Coverage of past due loan portfolio index	**881.93%**	**916.09%**	**992.06%**	**1497.17%**
Operating efficiency (administrative and promotional expenses / average total assets)	**0.56%**	**0.44%**	**0.36%**	**0.63%**
ROE (annualized net income for the quarter/ average stockholders' equity)	**8.63%**	**(3.40%)**	**8.53%**	**(56.48%)**
ROA (annualized net income for the quarter / average total assets)	**.60%**	**(0.22%)**	**0.62%**	**(4.18%)**
Net capital/ assets subject to credit risk	**24.19%**	**23.58%**	**25.96%**	**27.45%**
Net capital/ assets subject to credit, market and operational risk	**15.49%**	**15.15%**	**16.95%**	**18.52%**
Liquidity (liquid assets / liquid liabilities)	**380.79%**	**216.22%**	**259.40%**	**222.36%**
Financial margin after allowance for loan losses/ average earning assets	**4.46%**	**12.00%**	**5.12%**	**(0.43%)**

2019	1st Q	2nd Q	3rd Q	4th Q
Delinquency index	0.30%	0.30%	0.33%	0.32%
Coverage of past due loan portfolio index	977.03%	1012.56%	1090.08%	1088.56%
Operating efficiency (administrative and promotional expenses / average total assets)	0.64%	0.55%	0.67%	0.50%
ROE (annualized net income for the quarter/ average stockholders' equity)	9.39%	9.83%	8.06%	(158.68)%
ROA (annualized net income for the quarter / average total assets)	0.61%	0.34%	1.28%	(11.52)%
Net capital/ assets subject to credit risk	22.76%	23.48%	24.62%	26.57%
Net capital/ assets subject to credit, market and operational risk	15.21%	15.45%	16.04%	17.03%
Liquidity (liquid assets / liquid liabilities)	756.93%	1035.81%	329.03%	309.30%
Financial margin after allowance for loan losses/ average earning assets	0.68%	0.47%	0.36%	9.94%

25. COMMITMENTS AND CONTINGENCIES

Leases

Leases provide periodic rental adjustments expense, based on changes in various economic factors. The Institution has commitments for non-cancellable leases. The total rental expense for office property, for the years ended December 31, 2020 and 2019, amounted to $4 and $12, respectively.

Claims and trials

In the normal course of operations, the Institution is involved in some claims and trial, which are not expected to have a material adverse effect on the financial situation and results of its operations. In such cases that represent a probable loss or make a cash outflow, the Institution has made the necessary provisions. It is worth to mention that to date there are no litigations on tax matters.

The main trials and claims refer to lawsuits for recoveries of loan portfolios and trusts for the years ended December 2020 and 2019 and its possible effect amounted to $1,267 and $1,083, respectively. Moreover, as of December 31, 2020 and 2019, there continue to be labor lawsuits, which present a value of the lawsuit in the amount of $100 and $99, respectively.

The Administration considers that the final resolution of the claims and judgments previously described will not have a significant effect on the financial situation of the Institution.

Labor liabilities

There is a contingent liability derived from employee benefits, which is mentioned in the last paragraph of the Note 3 t) and in the last paragraph of the Note 20.

26. RISK MANAGEMENT (UNAUDITED INFORMATION)

The national and international regulations on risk management have seen an unprecedented evolution in recent years, incorporating a preventive approach in the financial processes carried out by lending institutions, as well as the obligation to issue internal guidelines to establish controls in order to foresee any economic loss due to the materialization of risks, whether discretionary, non-discretionary or even non-quantifiable.

The Institution, to keep up with the implementation of the requirements from the various provisions of prudential nature in matters of risk management, credit and internal control, applicable to lending institutions, as well as what is indicated by regulatory bodies in Mexico for the prevention of money laundering, has tried to implement international standards from a systematic and integral perspective within its controls and processes (unaudited numbers).

Discretionary quantifiable risks

1. **Market risk**

The Institution uses the VaR methodology to calculate the market risk of its trading and available for sale portfolios. In general, the methodology that is being applied is the historical simulation.

The following general principles, stand out:

- The confidence interval that is being applied in the VaR calculation is 97.5% (considering the extreme left of the profit and loss distribution).
- The base time horizon considered is 1 day.

In the generation of scenarios, a year of historical information is considered in the risk factors.

The following risk factors are considered: domestic and foreign interest rates, spreads, exchange rates, indexes and share prices.

In addition to the VaR information, sensitivity measures are calculated, and stress tests are carried out ("stress-test").

As of July 2005, backtesting tests are carried out on a monthly basis to statistically validate that the market risk measurement model provides reliable results within the parameters chosen by the Institution.

Up to date, the limits to which they are monitored on a daily basis are:

- Value at risk: based on the capital allocated to market risks.
- Regulatory capital: based on the rules for the capitalization requirements of the Commercial Banks National Credit entities and Development Banking Institutions.
- Notionals: referring to the maximum nominal values that can be held in position.
- Maximum loss measure: a limit of maximum losses is established in the face of unfavorable market trends.

The amount of the average VaR for the year 2020 $69.45 which represents 0.20% of the net capital at the end of December 2020.

Markets
Amount VaR $69.454 MDP

Trading
VaR $31.788
MDP

Treasury
VaR $37.666
MDP

2. **Management of assets and liabilities**

The management of assets and liabilities refers to the management of risks that affect the Institution's balance sheet. It includes the management techniques and tools necessary to identify, measure, monitor, control and manage the financial risks (liquidity and interest rates) to which the balance sheet is exposed, and also aims to maximize its adjusted performance due to market risks and, consequently, optimize the use of the Institution's capital.

3. Liquidity risk

The liquidity risk that affects a banking institution is classified broadly into three categories:

- Market liquidity risk: is the possibility of economic loss due to the difficulty of alienating or cover assets without a significant reduction in its price. This kind of risk as a result of drastic interest rate movements, is incurred when large positions are taken in any instruments or when investments are made in markets or instruments for which there is not a wide supply and demand in the market.
- Funding liquidity risk: represents the difficulty of an institution to obtain the necessary results and settle its liabilities, through the revenue, from its assets or through the acquisition of new liabilities. This kind of crisis is usually caused by a sudden and drastic deterioration in the quality of assets that originates an extremely difficulty to turn them into liquid resources.
- Liquidity risk by mismatch in cash flows: the inability to meet the present and future needs of cash flows affecting daily operations or financial conditions of the institution, as well as the potential loss from the change in the structure of the balance sheet of the institution because of the time difference between assets and liabilities.

The Institution, in compliance with the provisions of comprehensive risk management, developed a contingency financing Plan and stress liquidity scenarios, laying down various measures to monitor, quantify and follow up with the risks listed above, as well as a plan of action at the institutional level, in case of possible liquidity problems.

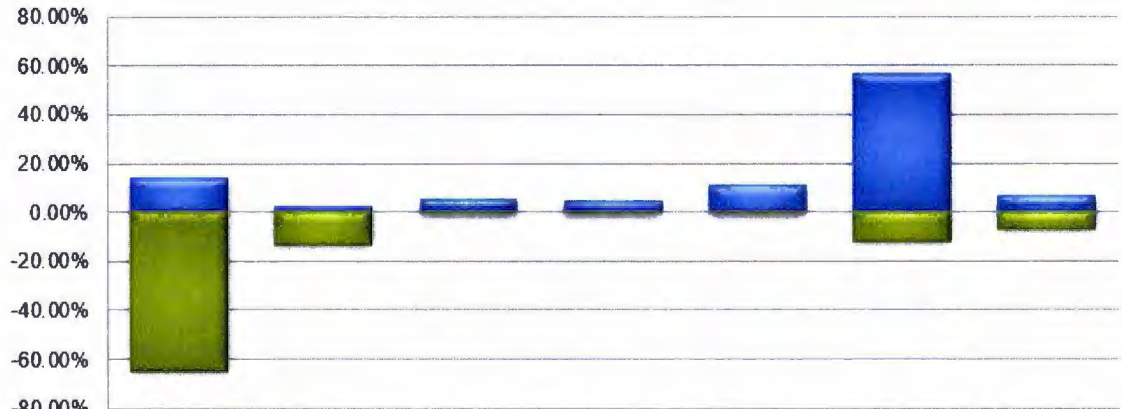
4. Maturity profile in local currency

Active and passive operations in national currency increased 9.53% during 2020, reaching $539,876 at the end of December. Based on regulatory criteria, the maturity Gap considers both balance sheet items and memorandum accounts, that is, reportos and derivatives. The amounts presented do not match with those shown in the balance sheet due to changes in the presentation of derivative financial instruments. Here we present the net IRS (Interest Rate Swap) per band and the CCS (Cross Currency Swap) according to the nature of each leg.

	2020			2019		
Maturity ranges	**Asset**	**Liability**	**Gap**	Asset	Liability	Gap
Up to 7 days	$ **76,696**	$ **351,663**	**(274,967)**	$ 36,482	$ 300,051	(263,569)
Up to 31 days	**11,548**	**73,695**	**(62,147)**	23,368	65,186	(41,818)
Up to 92 days	**27,244**	**1,697**	**25,547**	26,114	12,597	13,517
Up to 184 days	**26,233**	**4,518**	**21,715**	14,194	9,382	4,812
Up to 366 days	**57,545**	**1,348**	**56,197**	27,312	951	26,361
Subsequent with	**304,598**	**66,786**	**237,812**	318,496	67,157	251,339
no defined maturity	**36,012**	**40,169**	**(4,157)**	47,285	37,927	9,358
Total	$ **539,876**	$ **539,876**		$ 493,251	$ 493,251	

The Gap of negative liquidity on the horizon of a month amounts to $337,114.

Den LC maturity profile



	7 days	31 days	92 days	184 days	366 days	Rear	No maturity
Assets	14.21%	2.1%	5.0%	4.9%	10.7%	56.4%	6.7%
Liabilities	-65.1%	-13.7%	-0.3%	-0.8%	-0.2%	-12.4%	-7.4%

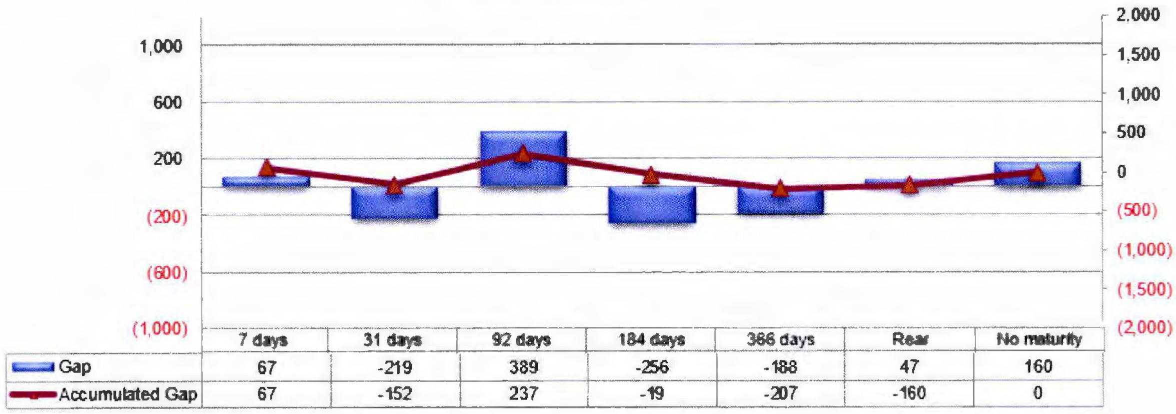
5. Maturity profile in foreign currency

Active and passive operations in foreign currency as of December 31, 2020 decreased by 8.6% during the year. Based on regulatory criteria, the maturity Gap considers both balance sheet items and memorandum accounts, that is, reportos and derivatives. The amounts presented do not match with those shown in the balance sheet due to changes in the presentation of derivative financial instruments. Here the net IRS (Interest Rate Swap) per band and the CCS (Cross Currency Swap) are presented according to the nature of each leg.

	2020			2019		
Maturity ranges	**Asset**	**Liability**	**Gap**	Asset	Liability	Gap
Up to 7 days	$ **1,198**	$ **1,131**	**67**	$ 936	$ 519	417
Up to 31 days	**229**	**448**	**(219)**	449	445	4
Up to 92 days	**818**	**429**	**389**	475	757	(282)
Up to 184 days	**359**	**615**	**(256)**	18	98	(80)
Up to 366 days	**4**	**192**	**(188)**	3	566	(563)
Subsequent with no	**2,750**	**2,703**	**47**	3,035	2,698	337
defined maturity	**160**	**-**	**160**	167	-	167
Total	$ **5,518**	$ **5,518**		$ 5,083	$ 5,083	

In accordance with the contractual maturity of assets and liabilities in foreign currency and based on figures of the balance sheet at the end of December 2020, it can be seen that in the first 7 days of January of 2021, there was a positive million dollar liquidity of $67 USD dollars.

FC Expiration Gap



6. Estimate of gain or loss on advance sale

To comply with the Provisions of article 81 of the section I, subparagraph (b) of the Provisions, below, is the estimation of results from advance sales of assets under normal and extreme scenarios.

At the end of December 2020, considering the scenarios of crisis in the portfolios of corporate trading and investment to maturity, if there was a similar situation to November 9, 2016, it would lead to a loss of $133.31, equivalent to 0.64% of the value of the position.

Portfolio LC	Position	Advanced sale	25/08/1998	19/09/2002	28/04/2004	16/10/2008	09/11/2016	11/03/2020
Corporate trading	3,645.68	-0.32	-0.32	-0.07	0.05	0.00	-0.11	0.02
Investment to maturity	17,113.88	-125.81	-56.46	-15.31	-59.84	-66.05	-133.20	-125.81

Considering the crisis scenarios on the portfolios available for sale and held to maturity of the London branch, if there was a situation similar to the 2016 crisis, this could result in a loss of 69.9 equivalent to 0.84% of the value of the position.

Portafolio FC	Position	Advanced sale	19/09/2002	10/05/2004	16/10/2008	09/11/2016	11/03/2020
Available for sale	**7,723.69**	- **58.27**	- 41.48	- 33.04	- 25.20	- 58.27	- 30.37
Held to maturity	**562.08**	- **11.60**	- 6.19	- 4.97	- 2.73	- 11.60	- 10.18

7. Credit risk

Credit risk is defined as the possibility that a counterparty or accredited breach in time and form with their credit obligations, it also refers to the loss of value of investment determined by the change in the credit quality of some counterpart or borrowers, without default necessarily occurring.

8. Expected loss

The expected loss of the loan portfolio is obtained using the portfolio rating methodology established in the Chapter V of the Provisions, regarding the rating of the loan portfolio.

Considering this methodology, the following assumptions are also established:

- The portfolio of former employees is excluded, in order to directly measure the effect of the expected losses of the portfolio with risk from the private sector.

- The contingent portfolio of the credit to the Trust for the Participation to Risks is not considered since this trust is in charge of managing its credit risk.

- Additional reserves are not included.

- The financial agent portfolio is not considered as it is a portfolio without risk

- The nonperforming portfolio is considered, since according to the portfolio qualification methodology based on expected loss, when an event of default occurs, it does not imply that the expected loss is reserved at 100%.

Under the aforementioned assumptions, at the end of December 2020, the total portfolio stood at $221,292.2, while the expected loss from the loan portfolio amounted to $4,222.2, equivalent to 1.91% of the total portfolio.

Expected losses allowance

Portfolio	Portfolio balance	Expected loss	% Expected loss
Exempt	$ 0.0	$ 0.0	0.0%
Risk A	134,096.9	1,048.2	0.8%
Risk B	80,450.1	1,803.5	2.2%
Risk C	5,463.1	502.9	9.2%
Risk D	753.8	339.2	45.0%
Risk E	528.3	528.3	100.0%
Rated	221,292.2	4,222.2	1.91%
Total	$ 221,292.2	$ 4,222.2	1.91%

9. Unexpected loss

Unexpected loss represents the impact that the capital of the Institution could have derived from unusual losses in the loan portfolio, the level of coverage of this loss for the capital and reserves of an institution is an indicator of solvency adjusted for risk of the same.

Since December 2005, the Institution makes the estimation of the unexpected loss of the credit portfolio operations, using Monte Carlo simulation and analytical methodologies, as of that date the stability of these measures has been observed and its behavior in the face of various changes in the environment, to determine which of them should be used as a measure of the risk of the Institution's loan portfolio.

In November 2007, the IRMC concluded that, of the methodologies proposed for the estimation of the unexpected loss of the loan portfolio, the methodology with an economic approach is the one that best aligns with the basic method based on internal Basilea II qualifications, according to:

- The similarity of concepts existing between the proposed economic methodology and the capital requirement for credit risk estimated from the Basilea II basic approach. This approach allows institutions to estimate with internal methods the capital requirement necessary to support their risk.

- High levels of correlation and similarity in the average capital requirement observed during a year of internal implementation of the proposed credit portfolio unexpected loss methodologies.

In addition, it was considered that the unexpected loss of the loan portfolio should continue to be estimated monthly through the valuation and Monte Carlo methodologies in order to have information regarding future changes in the banking standard in which the portfolio market valuation is requested. These methodologies are applied in a horizon of one year and with a confidence level of 95%

At the end of December 2020, the estimate of unexpected loss under the economic approach amounts to $18,771 and the credit VaR amounts to $20,331 and represents 9.18% of the portfolio with risk.

10. Counterparty risk and diversification

In the Institution, an integral control of counterparty risk is exercised, applying the established credit exposure limits. These limits consider the operations throughout the entire balance sheet, that is, both the financial markets and the credit portfolio. The methodology used is consistent with the General Rules for the Diversification of Risks in the Realization of Active and Passive Operations Applicable to Lending Institutions.

At the end of December 2020, no economic group concentrates credit risk above the maximum financing limits.

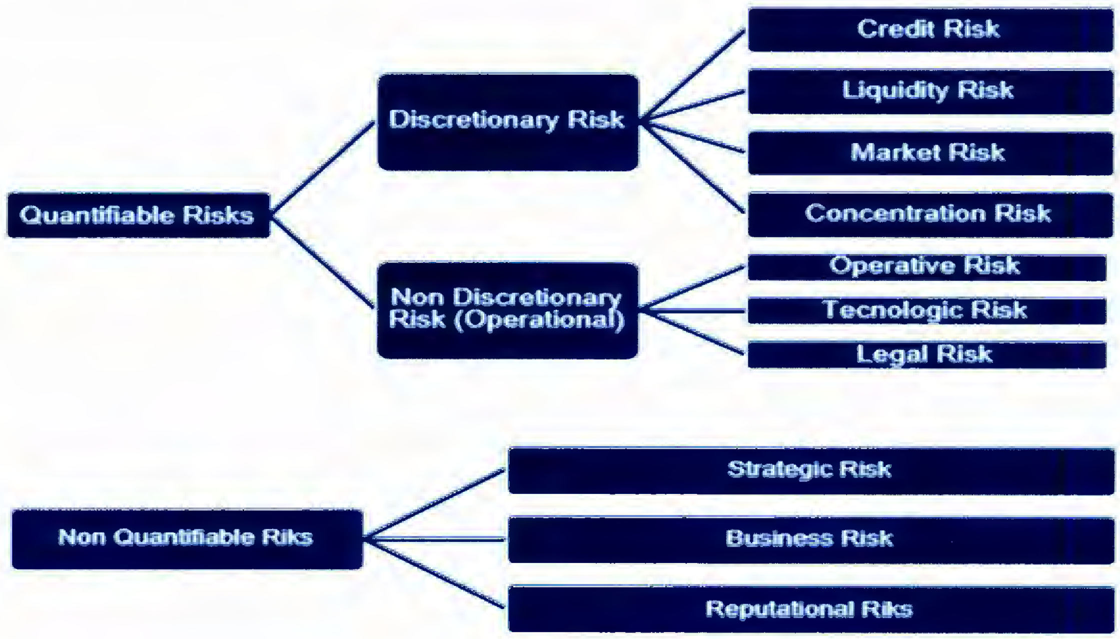
You have the following number of financings (credit and market operations) that exceed 10% of the basic capital individually:

Number of financing	Total amount	Capital percentage
22	$ 202,387.5	647.03%

The amount of financing for credit operations that is maintained with the three main companies based on Article 60 of the CUB amounts to $13,942.

11. Operational risk and non-quantifiable

The risks to which a financial institution is exposed are classified into two broad categories; quantifiable and not quantifiable. Non-quantifiable risks are in turn divided into three types. The quantifiable and non-quantifiable risks, in turn, are divided as follows:



The non-discretionary risks, that is, the operational risk, are those resulting from the operation of the business, but they are not the result of taking a risk position. These risks are defined below:

- Operational Risk: potential losses derived from failures or deficiencies of internal controls, due to errors in the processing and storage of operations.

- Technological risk: potential losses derived from damages, interruption, alteration or failures derived from the use or dependence on hardware, software, systems, applications, networks and any other channel of information distribution in the provision of banking services with customers of the Institution that derive in errors in the processing and storage of operations or in the transmission of information.

- Legal Risk: potential losses derived from the applicable legal and administrative provisions, the issuance of unfavorable administrative and judicial resolutions and the application of sanctions, in relation to the operations carried out by the institutions.

  Non-quantifiable risks are unforeseen events to which a statistical base cannot be formed to measure potential losses, among which are the following:

- Strategic risk: potential losses by deficiencies in the decision-making process, in the implementation of procedures and actions to carry out the business model and strategies of the Institution, as well as the lack of knowledge about the risks to which it is exposed by the development of its business activity and that affect expected results to achieve the objectives agreed upon by the Institution in its strategic plan.

- Business risk: potential losses attributable to the inherent characteristics of the business and changes in the economic cycle or environment in which the Institution operates.

- Reputation risk: potential losses in the development of the activity of the Institution proceeding from the impairment in perception that have the different parties concerned, both internal and external, on its solvency and viability.

The objective of managing operational risk and non-quantifiable risks is to formally establish the rules and policies necessary to systematically and efficiently carry out the identification, measurement, monitoring, limitation, control, information and disclosure of non-discretionary risks and non-quantifiable, which all areas of the Institution that are involved in activities that imply a non-discretionary or non-quantifiable risk must apply, as well as the purpose of ensuring the timely identification of the capital requirements and the resources derived from these risks.

The policies for the management of operational risk and non-quantifiable risks are the following:

- It is the responsibility of the Operational Risk Sub-Direction to define the procedures for the management of inherent and residual operational risks, economic loss events, tolerance levels, risk limits, amounts of probable potential losses derived from judicial resolutions or administrative unfavorable litigation in which the Institution is the plaintiff.

- None of the procedures defined for these risks may be modified or altered, only with the authorization of the Integral Risk Management Committee and annually by the Board of Directors.

- The necessary evidence will be available to manage non-discretionary and non-quantifiable risks.

- The tools that have been developed or acquired by the Institution will be used to manage operational risk and non-quantifiable risks.

The strategy for operational risk and non-quantifiable risks is to identify, manage, quantify (if applicable), document the way to mitigate them through controls and processes considering the institutional expertise of risks, which could impact or violate the solvency of the Institution above the minimum requirements and with this help in the fulfillment of the Institutional goals and objectives. Also, to disclose in a timely manner the information of these risks to the Governing Bodies for timely decision-making. Likewise, promote the culture of the administration of these types of risks in the Institution.

The process of operational risks is fundamental and is documented and certified according to the quality management system under the ISO 9001-2015 Standard that contributes to the achievement of the objective of managing the operational risk to which the Institution is exposed.

The structure of the staff that manages non-discretionary and non-quantifiable risks has three elements, counting the Deputy Director of Operational Risk.

In relation to the scope and nature of information systems and measurement of operational risks and their reports, the Institution uses the institutional system called Operational Risk Tool to which the information of the results obtained from operational risk monitoring is incorporated, and where everything related to internal reports and regulatory reports (classifications and quantification) is managed.

The reports related to the management of operational risk (including technological and legal) are made in the IRMC through the "Risk management and monitoring report" that has at least a quarterly periodicity.

Methodologies, limits and tolerance levels.

Method to determine the capital requirement for operational risk.

The Institution uses the basic indicator method to calculate the capital requirement for their exposure to operational risk, following the methodology described in the Provisions.

Non-discretionary risks: Operational risk

The methodology used for the management of operational risk (quantitative and qualitative analysis) is through an internal institutional model of operational risk, which is based on a scorecard that considers five risk factors. This methodology is applied to the results of the self-assessments of the processes that describe the Institution's task and allows the comparison of the processes analyzed with two indicators; nature and efficiency, which have defined tolerance levels by risk factor and by indicator.

In addition, the inherent and potential risks of each process are identified, classified and qualified based on the methodology defined by the Banking Commission and the result is sent in an annual report called "Estimation of operational risk levels". The methodology of the Banking Commission provides product catalogs, process, line of business, type of risk and a guide for the calculation of frequency and impact of the inherent risk (without applying controls).

Considering the results obtained, it has been defined that for the inherent inherent risks located in the quadrant nine red zone (high frequency and high impact), together with those responsible for the process to which it belongs, additional actions or controls for its administration will be defined.

The quantitative analysis is carried out through the events of loss due to operational risk aroused in the institution and whose information is provided by the owners of the processes involved. These events are classified according to the methodology defined by the Commission to carry out the regulatory reports "Events of loss due to operational risk" and "Update of loss events due to operational risk". The methodology of the Banking Commission provides the catalogs of the product, process, line of business and type of risk.

For the monitoring of loss events, an operational risk limit was defined considering the positive net income of three years, considering methodologies and comments from the Banking Commission.

Non-discretionary risks: Technological risk

The technological risk methodology to identify, quantify and manage this risk is performed by IT and is based on five indicators which are network security, virus detection and blocking, availability of critical services and non-critical ones. As a control of risk monitoring, IRMC is informed at least quarterly.

Its monitoring is monthly and is carried out by comparing the levels obtained in each indicator that considers the events reported by the users areas against the tolerance levels agreed between the area of computer science and these areas (Meta).

This risk information is captured by the IT area directly in the operational risk tool.

Legal risk

There is an internal methodology for estimating the registry of potential losses in terms of legal risk, based on the expectations of specialists to obtain a favorable resolution, classifying them into five bands:

- Without sufficient evidence
- High
- Moderate
- Considerable
- Low

The application of the methodology is carried out by the Litigation and Credit Legal Department, the staff identifies, quantifies and manages the legal risk. As a control of risk monitoring, IRMC is informed at least quarterly.

The results of the potential losses are grouped, analyzed and reported, with at least a quarterly periodicity to the IRMC, by type of suits, which are the following:

- Labour nature
- Contentious portfolio
- Trust
- Commercial
- Treasury and stock trading

Risks on the assets of the Institution

They are those derived from casualties or unforeseen external events that cannot be associated with a probability of occurrence and for which the economic losses caused can be transferred to external entities that bear risks.

Type of risk	Definition	Example
Damage	Risk of loss due to catastrophic natural events that can interrupt the operation or affect assets of the Institution.	Fire, earthquake, volcanic eruption, hurricane, among others.
External	Risk of loss caused by entities outside the Institution.	Vandalism, seedlings, etc.

For this type of risk, monitoring is carried out considering the following criteria:

Inventory	Control measures	Economic impact
Institution Assets	Institutional Program for Assets Insurance.	Payment of premiums
Foreclosed Assets	Premium payments Institutional Program for Assurance Assets.	Deductibles in case of materialization.

During the year 2020, were covered, via policy, the damages that occur within the national territory and abroad of tangible and intangible assets (all kinds of software or packages of programs, licenses, permits, technology information and database) including in general material damages, civil liability, accidental breakage of glass including neon signs, theft and/or assault with violence or without violence, theft of money and securities, banking, electrical equipment, Electromechanical, electronic, electromagnetic and fixed and mobile telephony, boilers and equipment subject to pressure, breakage of machinery, equipment contractor, goods in transit (transport), works of art, and difficult or impossible to reposition objects, money and values, outfitting and safety equipment, personal accident, infidelity of employees and terrorism. A policy covering the vehicle fleet also exists

NON-QUANTIFIABLE RISKS

The implemented methodologies are in accordance with the Provisions. A brief description of these is provided as follows:

- Strategic risk. -The institution has a methodology based on defining, documenting, and following-up on the Institution's Management strategies, which, each year are defined and approved, as well as presented to the Board of director, at least on a quarterly basis, for the decision making and mitigation of detected risks.

- Business risk. - Four indicators that help to identify the possible materialization of the risks that could affect the Institution derived from movements in the financial environment and the economic cycle were defined as a methodology to manage this risk. These indicators are given monthly monitoring through risk reports.

- Reputation risk. - For the administration of this risk, a Communication Plan was defined applied and monitored by the Social Communication Management, said Plan considers the attention to the minimum requirements issued by the Banking Commission in the Provisions regarding the reputation risk. The Social Communication Management monitors the events that affect the negative perception that is held internally or externally of the Institution. As a control of this risk, the IRMC is informed at least quarterly.

OPERATIONAL RISK RESULTS

Results of self-assessments

The result of the most relevant processes of the Institution in terms of its nature at the end of December 2020, is as follows:

Name of the process	Nature indicator */	Tolerance level
Exchange market	69.70	Medium high risk
Acquisition of goods and services engaged Nacional Financiera, S.N.C.	69.43	Medium high risk

Name of the process	Nature indicator */	Tolerance level
Internal control	68.87	Medium high risk
General services rendered	65.45	Medium high risk
Employment relationships	64.17	Medium high risk
Foreign bank financing and external debt management	63.65	Medium high risk
SPEI operation**	63.49	Medium high risk
Provision of contentious legal services and banking formalization	62.20	Medium high risk
Formalization and management of the NAFIN investment portfolio	59.85	Medium high risk
Prevention and identification of operations with resources of illegal origin	59.17	Medium high risk
Automatic guarantees management of Nacional Financiera, S.N.C., and the participant development bank. (Guarantee program)	58.00	Medium high risk
Provision and management of the medical service	56.74	Medium high risk
Permanent stock and trust portfolio	56.27	Medium high risk
Money market	53.81	Medium high risk
Derivatives market	53.47	Medium high risk
Programing and financial budgeting	53.44	Medium high risk
Regulatory framework and tax operation	53.38	Medium high risk
Information and credit management record	53.28	Medium high risk
Securities loan	52.53	Medium high risk
Formalization and management of mandate investment portfolios	51.83	Medium high risk
Fiduciary process	51.59	Medium high risk
Rating of portfolio, reserves and regulatory reports	51.27	Medium high risk
Financial agent back office	50.61	Medium high risk
Recovery of first floor portfolios, emerging programs and exemployee	50.36	Medium high risk
Capital market	47.94	Medium high risk
Recovery of second tier portfolio	45.11	Medium high risk
Cash flow management and control	44.92	Medium high risk
General cash fund	44.69	Medium high risk
Spending operation	44.13	Medium high risk
Custody and administration of securities and cash	42.07	Medium risk
Treasury management	40.60	Medium risk
Strategic planning and follow-up on management indicators	40.42	Medium risk
Advertising and design	39.74	Medium risk
Credit control desk operation	39.59	Medium risk
Legal attention in acquisitions, governmental regulatory framework and inquiries	37.99	Medium risk
Consolidation and dissemination of financial information	34.79	Medium risk
Technological planning	32.14	Medium risk
Electronic products management	32.02	Medium risk

Save values	28.41	Medium risk
Risk management	27.53	Medium risk
Applied development	17.24	Low risk
Central production services	16.40	Low risk
Central infrastructure	13.70	Low risk
Distributed infrastructure and telecommunications	12.41	Low risk

***/ The higher score, the more critical in terms of nature of the process.**

**** Does not belong to the quality management system but is considered critical.**

The result obtained at the end of December 2020 of the most relevant processes that describe the Institution's work, in terms of efficiency, is shown below:

Name of the process	Operative efficiency indicator */	Tolerance level
Provision and management of the medical service	36.64	Medium risk
Strategic planning and follow-up on management indicators	30.49	Medium risk
Central production services	27.81	Medium risk
Applied development	27.31	Medium risk
Central infrastructure	27.11	Medium risk
Financial agent back office	26.68	Medium risk
Formalization and management of mandate investment portfolios	25.10	Low risk
Spending operation	23.67	Low risk
Securities loan	22.20	Low risk
Electronic products management	21.86	Low risk
Save values	21.85	Low risk
Prevention and identification of operations with resources of illegal origin	21.84	Low risk
Employment relationships	21.80	Low risk
Custody and administration of securities and cash	21.70	Low risk
risk management	21.57	Low risk
Acquisition of goods and services engaged Nacional Financiera, S.N.C.	20.98	Low risk
Advertising and design	20.96	Low risk
General services rendered	20.13	Low risk
Treasury management	19.73	Low risk
Technological planning	19.69	Low risk
Fiduciary process	19.55	Low risk
Credit control desk operation	19.34	Low risk
Derivatives market	19.04	Low risk
Regulatory framework and tax operation	18.30	Low risk
Exchange market	17.57	Low risk
Information and credit management record	16.36	Low risk
Permanent stock and trust portfolio	16.32	Low risk
Legal attention in acquisitions, governmental regulatory framework and inquiries	15.68	Low risk

Foreign bank financing and external debt management	15.11	Low risk
Internal control	14.74	Low risk
Cash flow management and control	14.28	Low risk
Recovery of first floor portfolios, emerging programs and exemployee	14.08	Low risk
Formalization and management of the NAFIN investment portfolio	12.93	Low risk
Money market	11.77	Low risk
Consolidation and dissemination of financial information	11.74	Low risk
SPEI operation **	10.91	Low risk
Capital market	10.46	Low risk
Rating of portfolio, reserves and regulatory reports	10.17	Low risk
Provision of contentious legal services and banking formalization	9.00	Low risk
Recovery of second tier portfolio	7.37	Low risk
Distributed infrastructure and telecommunications	7.05	Low risk
General cash fund	6.96	Low risk
Automatic guarantees management of Nacional Financiera, S.N.C., and the participant development bank (Guarantee program)	6.26	Low risk
Programing and financial budgeting	6.14	Low risk

***/ The higher score, the more critical in terms of efficiency of the process.**

**** Does not belong to the quality management system but is considered critical.**

Three operating risks were recorded in the high threshold (9) in 2020, which reduced the possible ratings (1 and 2) when applying controls. Work is being done on the corresponding applicable remediation plans.

Results of the events of economic losses.

During the year 2020, 37 loss events were accounted for due to operational risk with a likely impact of $1.54. The monthly average was three events with an amount of $0.13.

Month	Number of events	Likely economic impact	% Of LEI (IEP) each month
January	6	0.02	1.55%
February	0	-	0.00%
March	2	0.00	0.00%
April	2	0.00	0.00%
May	2	0.00	0.00%
June	1	0.00	0.00%
July	2	0.00	0.00%
August	2	0.00	0.00%
September	2	0.81	52.31%
October	6	0.09	5.56%
November	2	0.02	1.49%
December	10	0.60	39.09%
Total	37	1.54	100.00%

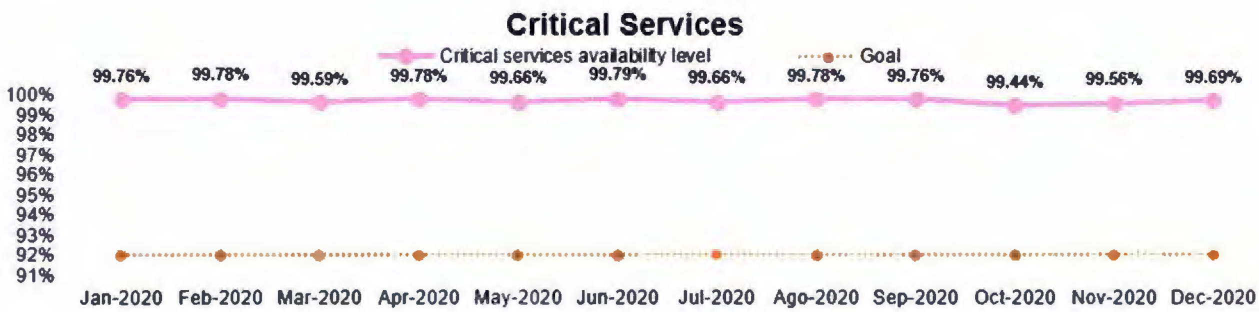
* Due to the fact that there were periods when the probable economic impact was very small and it is expressed in millions, the figure is not necessarily shown.

The consumption of the limit of the events of economic loss at the end of each month of year 2020 was within the established parameters.

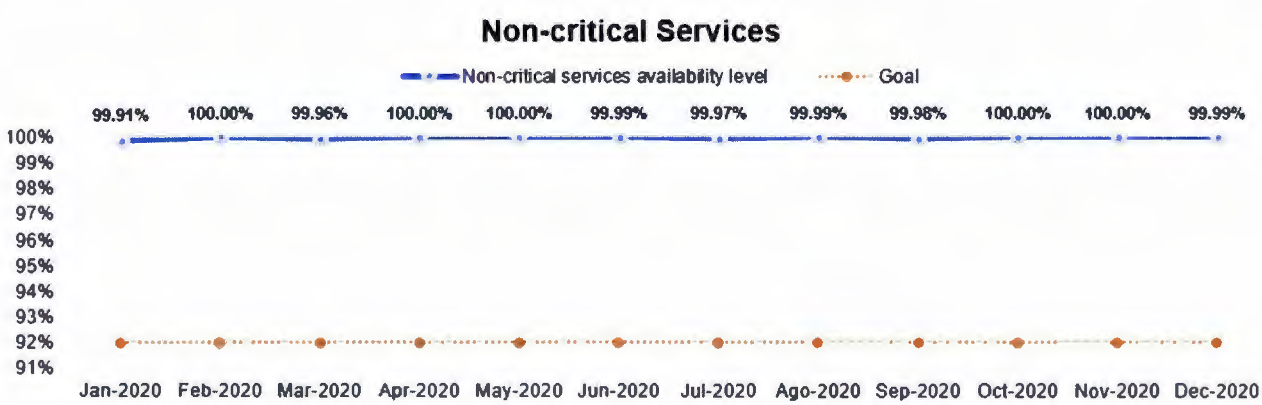
Result of technological risk indicators

During the twelve months of 2020, the indicator level of security to the network had zero intrusions, the indicator of recovery of critical services under disaster drills had 100% of behavior, likewise, the indicator of detection and blocking of virus to the network had zero impacts. The quarterly and monthly average of these three risk indicators were located in the defined goal.

The behavior of the indicator of availability of critical services in the twelve months of year 2020 is as follows:



The behavior of the availability of non-critical services indicator in the twelve months of the year 2020, is as follows:



The five technological risk indicators were found within the goals established for the management of this risk.

During the year 2020, annual average and quarterly average behavior of the indicators Availability of critical services and the Availability of non-critical services were as follows:

T.R. indicator description	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020	Average
Availability level of critical services	99.76%	99.78%	99.59%	99.78%	99.66%	99.79%	99.66%	99.78%	99.76%	99.44%	99.56%	99.69%	99.69%
Availability level of non-critical services	99.91%	100.00%	99.96%	100.0%	100.0%	99.99%	99.97%	99.99%	99.98%	100.0%	100.00%	99.99%	99.98%

Note: Some months could show an availability of 100.00% as result of the rounding to two decimal places shown here.

The average of the availability level of critical and non-critical services were within the established goals.

Result of the legal risk

At the end of December 2020, the statement that keeps the record of potential losses in terms of legal risk is:

Type of lawsuit	Contingency	Provision	Provision / contingency	Income loss	Results / provision
Total (1+2+3+4)	216.27	59.97	27.73%	10.22	17.04%
1) Labour nature	46.30	30.01	64.82%	9.35	31.16%
2) Litigation porfolio	12.66	11.64	91.92%	0.81	6.92%
3) Trusts	157.30	18.32	11.64%	0.06	0.34%
4) Treasury and securities trading	0.00	0.00	0.00%	0	0.00%

Figures in millions of pesos, valued at an exchange rate of $19.9087.

1. The contingency of the Labor Portfolio reports an amount of $46.30, which had an increase of 4.15% with respect to the closing of the previous quarter that is equivalent to an amount of $1.84. The provision reports an amount of $30.01, which had an increase of 9.04% with respect to the closing of the previous quarter, which is equivalent to an amount of $2.49. The movement in the Contingency and Provision is derived mainly from the update in the expectation of the demand and the amounts demanded according to the law.

During fiscal 2020, a final ruling was handed down on 36 of the labor lawsuits filed against the Institution, of which it is important to highlight:

- 25 indirect labor lawsuits, all of wich had favorable rulings handed down for the Institution.
- 7 direct labor legal proceedings with pensions in which the Institution was absolved of the total benefits claimed.
- A direct labor legal proceeding for the defendant (reinstatement and payment of back pay) in which the Institution was ordered to pay accessory benefits (approximately $43,000 which the Court vacated a judgment before the lack of the duty to prosecute the former employee's case), underscoring that the total estimate of the benefits claimed from the Institution amounted to $14.10.

- And the favorable ruling handed down in benefit of the Institution of 3 amparos related to the Federal Remunerations of Public Servants, PEF 2019, and Manual of Remunerations, Retirements, Rights and Obligations applicable to white collar employees, and the Institution was released from paying benefits claimed in the amount of $2.98.

2. The litigation portfolio reports an amount of $12.66, that had a 6.80% increase with respect to the prior year end closing, which is equivalent to an amount of $0.81. 50 non-labor lawsuits filed against Nacional Financiera, S.N.C. were concluded. Favorable rulings were handed down in 100% of them and the Institution was absolved of the total amount claimed.

3. The trust contingency portfolio reports an amount of $157.30, which had a 1.36% increase with respect to the prior year end, which is equivalent to an amount of $2.11. The provision for Trusts underwent a 0.87% decrease, which is equivalent to the amount of $0.16 with regard to the prior year. The clear lack of force was obtained on the ruling handed down of a tax liability amounting to $383,800 that the National Banking and Securities Commission had assessed on the Institution for inspection fees and oversight of tax year 2016 in connection with a trust.

Pursuant to the foregoing, there is a contingency in an amount approximating $216.27, a provision that amounts to $59.97, and an effect in income amounting to $10.22, with amounts as of December 2020 year end.

Non-quantifiable risks

Results in the affectations to the patrimonial assets of the Institution

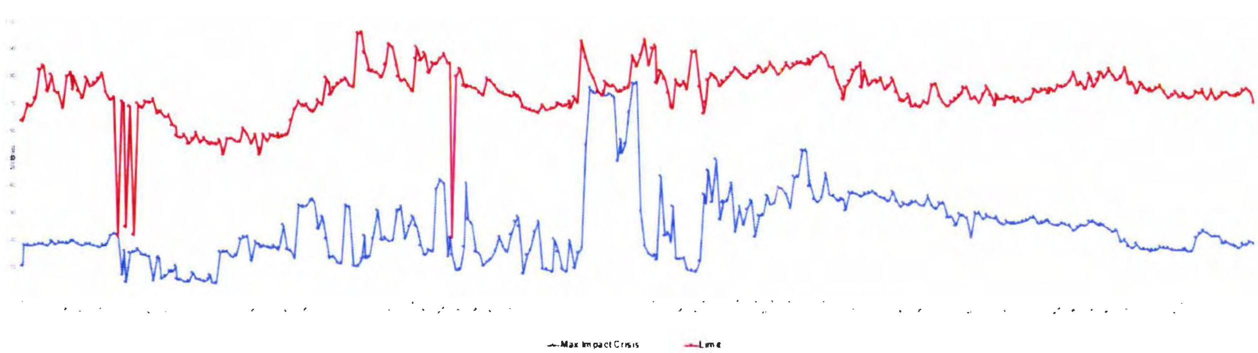
Two claims were reported in 2020 that affected the Institution's capital assets related to *electronic cellular telephones and material damage to real property*, in a deductible amount of $572.9.

Strategic risk

During the year 2020, at least quarterly monitoring of the compliance behavior of senior management goals has been carried out to identify, in an expert manner, the main risks in order to mitigate them and make decisions that do not cause failure to comply with the Institution's goals.

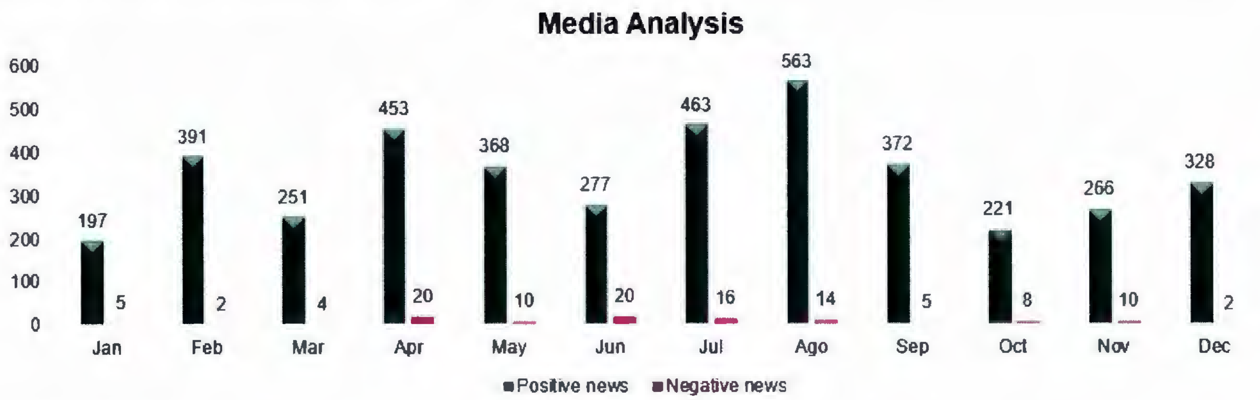
Business risk

During the year 2020, the indicators defined by management for this risk were monitored, through market risk, reports, stressing that there are no variances out of the established limit:



Reputation risk

During the year 2020, the Social Communication Management – Marketing and Business Positioning Directorate met the minimum requirements in terms of reputation risk issued by the Banking Commission in the Provisions, additionally they monitored events that affect the negative perception that is held both internally and externally on a monthly basis, analyzing the positive and negative notes via printed, electronic communication channels, internet portals and state information.



Ratio leverage

The information related to leverage is disclosed with figures as of December 2020, in compliance with the Resolution that modifies the general Provisions applicable to lending institutions, published by Diario Oficial de la Federación (Official Gazette) on June 22, 2016, article 2 Bis 120, articles 180, 181 and Appendix 1 - O Bis:

TABLE I.1
STANDARDIZED DISCLOSURE FORMAT FOR THE LEVERAGE RATIO

REFERENCE	CATEGORY	AMOUNT
	Exposures in the balance	
1	Items on the balance sheet (excluding derivative financial instruments and repurchase and securities lending operations -SFT by its acronym in English- but including the collateral received as guarantee and recorded in the balance sheet	606,915
2	(Amounts of assets deducted to determine the level 1 of Basel III capital)	-
3	**Exposures within the balance sheet (net) (excluded derivative financial instruments and SFT, sum of lines 1 and 2)**	606,915
	Exposure to derivative financial instruments	
4	Current replacement cost associated with all operations with derivative financial instruments (net of the margin of variation in admissible cash)	-
5	Amounts of additional factors due to future potential exposure, associated with all operations with derivative financial instruments	2,042
6	Increase in collateral contributed in operations with derivative financial instruments when said collaterals are derecognized from the balance sheet in accordance with the operating accounting framework	N.A.

7	(Deductions to accounts receivable for variation margin in cash contributed in operations with derivative financial instruments)	-
8	(Exposure due to transactions in derivative financial instruments on behalf of customers, in which the settlement partner does not grant its guarantee in case of breach of the obligations of the Central Counterparty)	N.A.
9	Adjusted notional cash amount of the credit derivative financial instruments subscribed	N.A.
10	(Offsetting made to the adjusted notional cash of the credit derivative financial instruments subscribed and deductions of the additional factors by the credit derivative financial instruments subscribed)	N.A.
11	Total exposure to derivative financial instruments (sum of lines 4 and 10)	2,042
	Exposures for financing transactions with securities	
12	Gross SFT assets (without recognition offsetting), after adjustments for accounting transactions for sales	3,100
13	(Accounts payable and receivable from SFT compensated)	- 3,100
14	Counterparty Risk Exposure by SFT	228
15	Exposures by SFT acting on behalf of third parties	-
16	Total exposures from securities financing transactions (sum of lines 12 to 15)	228
	Other off-balance sheet exposures	
17	Off balance sheet exposures (gross notional amount)	218,928
18	(Adjustments for conversion to credit equivalents)	- 197,035
19	Items out of balance (sum of lines 17 and 18)	21,893
	Capital and total exposures	
20	Tier 1 capital	34,385
21	Total exposures (sum of lines 3, 11, 16 and 19)	631,078
	Leverage ratio	
22	Basel III leverage ratio	5.45%

TABLE II.1

ADJUSTED ASSETS AND TOTAL ASSETS COMPARATIVE

REFERENCE	DESCRIPTION	AMOUNT
1	Total assets	624,321
2	Adjustment for investments in the capital of banking, financial, insurance or commercial entities that are consolidated for accounting purposes, but are outside the scope of regulatory consolidation	-
3	Adjustment related to trust assets recognized in the balance sheet in accordance with the accounting framework, but excluded from the exposure measure of the leverage ratio	N.A.
4	Derivative financial instruments adjustment	- 12,264

5	Repurchase/resell agreements and securities lending transactions adjustment	-	2,872
6	Adjustment for items recognized in the balance sheet		21,893
7	Other adjustments		-
8	Exposure of the leverage ratio		**631,078**

TABLE III.1
RECONCILIATION OF TOTAL ASSETS AND EXPOSURE WITHIN THE BALANCE

REFERENCE	CONCEPT		AMOUNT
1	Totales assets		624,321
2	Derivative financial instruments transactions	-	14,306
3	Repurchase/resell and securities lending transactions	-	3,100
4	Trust assets recognized in the balance sheet in accordance with the accounting framework, but excluded from the exposure measure of the leverage ratio		N.A.
5	Exposures in the Balance		**606,915**

TABLE IV.1
MAIN CAUSES OF THE MAJOR VARIATIONS OF THE ELEMENTS (NUMERATOR AND DENOMINATOR) OF LEVERAGE RATIO

CONCEPT/QUARTER	Nov 20	Dec 20	VARIATION (%)
Basic capital	32,319	34,385	6.4%
Adjusted assets	566,555	631,078	11.4%
Leverage ratio	**5.70%**	**5.45%**	**-4.5%**

27. RECENTLY ISSUED FINANCIAL REPORTING STANDARDS

On March 13, 2020, the National Banking and Securities Commission (CNBV) published various modifications to the "General Provisions applicable to Lending Institutions" in the Official Daily Gazette (DOF - for its acronym in Spanish), which set out that the effectiveness of the modifications would be on January 1, 2021. However, considering the sanitary contingency, the extension to the effectiveness of the modifications was published in the DOF on December 4, 2020, and the new effective date was set to begin on January 1, 2022.

Included in the modifications are updates to accounting criteria applicable to lending institutions, in order to make them consistent with national and international financial reporting standards. The most relevant accounting changes are discussed below:

Accounting Criterion A-2 "Application of particular standards"

Certain Mexican Financial Reporting Standards (FRS) issued by the CINIF were incorporated to have them apply to lending institutions. Those FRS are as follows:

B-17 "Determination of fair value", C-16 "Impairment of financial instruments receivable", C-19 "Financial instruments payable", C-20 "Financial instruments for collecting principal and interest", D-1 "Revenue from contracts with customers", and D-2 "Costs of contracts with customers".

Accounting Criteria B-6, "Loan portfolio" and D-2 "Statement of income"

Accounting criteria applicable to lending institutions are adjusted in order for them to be able to reverse the surpluses in the balance of allowances for loan losses in the period in which they occur, as well as for recognizing the recovery of credits previously written off against the caption of "Allowance for loan losses" in the consolidated statement of income.

New pronouncements issued by the CINIF

The CINIF) has issued FRS and Improvements discussed below:

FRS C-16 "Impairment of financial instruments receivable"- It goes into effect for fiscal years beginning January 1, 2022. It sets forth standards for the accounting recognition of impairment losses of all financial instruments receivable (IFC - for its acronym in Spanish). It sets forth when and how an expected impairment loss must be recognized and it sets out the methodology for its determination.

The main changes included in this FRS consist of determining when and how expected impairment losses of IFC must be recognized, including:

- It sets forth that impairment losses of an IFC must be recognized when loan losses has increased and it is concluded that part of the future cash flows of the IFR will not be recovered.
- It proposes that the expected loss be recognized based on the historical experience that the entity has of credit losses, current conditions, and reasonable and sustainable forecasts of the different quantifiable future events that might affect the amount of future cash flows recoverable of IFRs.
- With regard to IFCs, it sets forth that it should be determined how much and when the amount of IFCs are expected to be recovered, since the recoverable amount must be at its present value.

FRS C-19 "Financial instruments payable" - It goes into effect for fiscal years beginning January 1, 2022. The main characteristics that this FRS has are shown below:

- It sets forth the possibility of subsequently valuing certain financial liabilities at their fair value subsequent to their initial recognition when certain conditions are met.
- Value long-term liabilities at their present value in their initial recognition. Restructuring a liability without substantially modifying future cash flows to pay it in full, the costs, and fees disbursed in this process will affect the amount of the liability and they will be amortized at a modified effective interest rate, instead of being allocated directly to net income or loss.
- It incorporates the Provisions IFRIC 19 "Extinction of Financial Liabilities with Capital instruments". This subject matter was not included in the existing standard.
- The effect of extinguishing a financial liability must be presented as a financial gain or loss in the statement of comprehensive income.
- It introduces the items of amortized cost items for valuing financial liabilities and the effective interest method, based on the effective interest rate.

FRS C-20 "Financial instruments for collecting principal and interest" - It goes into effect for fiscal years beginning January 1, 2022. The main aspects that it covers are as follows:

- The classification of financial instruments in assets. The concept of intent of acquisition and holding such instruments is ruled out for determining their classification. In its place, management's business model concept is adopted either to obtain a contractual return, generate a contractual return, and sell to meet certain strategic objectives, or to generate profits from their purchase and sale, to classify them according to the corresponding model..
- The effect of valuation of investments in financial instruments is also focused on the business model.
- Reclassification of financial instruments is not permitted between classes of financial instruments for collecting principal and interest (IFCPI), that of financial instruments receivable and for sale (IFCV), and that of negotiable financial instruments, unless the business model of the entity is changed.
- The embedded financial instrument, which modifies the flows of the principal and interest of the host receivable financial instrument, is not separated, but rather all the IFCPI will be valued at its fair value, as if it were a marketable financial instrument.

  FRS D-1 "Revenues from customer contracts" - It sets forth the standards for the accounting recognition of revenues that arise from contracts with customers and become effective for fiscal years that start, beginning January 1, 2022 It eliminates the suppletory application of International Accounting Standard (IAS) 18 "Revenues", IAS 31 "Revenue Swaps from advertising services ", IFRIC 13" Customer Loyalty Programs ", and IFRIC 18" Transfers of assets from customers ".

  In addition, this FRS, together with FRS D-2, repeals Bulletin D-7 "Construction and manufacturing contracts of certain capital goods" and INIF 14 "Construction contracts, sale and rendering of services related to real property" The main changes included are as follows:

- It sets forth the transfer of control as the basis for the timeliness of revenue recognition.
- It requires that obligations to be met in a contract be identified.
- It indicates that the allocation of the amount of the transaction between obligations to be met should be carried out based on independent sales prices.
- It introduces the concept of "contract assets".
- It requires that collection rights be recognized.
- It sets forth requirements and guidance on how to value the variable consideration and other aspects, upon valuing the revenue.

FRS D-2 "Costs of contracts with customers" - It sets forth the standards for the book recognition of the costs of sales of goods and services rendered It goes into effect for fiscal years beginning January 1, 2022. Together with FRS D-1 "Revenues from contracts with customers" repeals Bulletin D-7 "Construction contracts and manufacturing certain capital goods" and INIF 14 "Construction contracts, sale and rendering of services related to real property", except what concerns the recognition of assets and liabilities in this type of contracts within the scope of other FRS.

Its main change is the separation of the standard relative to the recognition of revenues from contracts with customers, the separation corresponding to the recognition of costs of contracts with customers. In addition, it extends the scope that Bulletin D-7 had referring exclusively to costs related to construction and manufacturing contracts of certain capital goods in order to include costs related to all types of contracts with customers.

Considering that the changes not only involve accounting subjects, but that they have an impact on the operations that are carried out by the business areas of the Institution, Management is in the process of engaging a service provider that works with it in the process of "Diagnosis and implementation of the modifications to the General Provisions applicable to Lending Institutions", in order for the Institution to be able to comply with the Provisions of the Supervisory Agency referred to above in due time and proper form.

28. SUBSEQUENT EVENT TO THE REPORTING DATE

As discussed in Note 22, on December 31, 2020, the Federal Government, through the Ministry of Finance and Public Credit, made contributions for future capital increases in the amount of $7,290 million pesos. On February 24, 2021, the Board of Directors held a meeting in which one of the agreements approved was to increase the maximum capital stock of the Institution to go from $3,000 authorized in 2020 to $4,500. The administrative formalities were authorized to modify Article 7 of the General Regulations of Nacional Financiera, with regard to the authorized maximum capital, and set the value of the premium that should be paid by subscribers of certificates of capital contribution (CAPs), which are issued for those contributions.

29. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

On February 25, 2021, the officers who signed the consolidated financial statements, authorized the issuance of the accompanying consolidated financial statements and related notes. These accompanying notes are part of the consolidated financial statements as of December 31, 2020 and 2019.

Carlos Noriega Romero
Chief Executive Officer

José Alberto Gómez Sandoval
General Director of Administration and Finance

María Teresa Ortiz Medina
Director of Accounting and Budget Department

Manuel Anaya Vallejo
Director of Internal Audit Department