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Ciudad de México

NACIONAL FINANCIERA, S.N.C.,

INSTITUCIÓN DE BANCA DE DESARROLLO
AND SUBSIDIARIES

**Consolidated financial statements and
independent auditor's report**

December 31, 2023 and 2022

Nacional Financiera, S.N.C.
Institución de Banca de Desarrollo and Subsidiaries
Consolidated financial statements and Independent auditor's report
December 31, 2023 and 2022 and for the years then ended

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Independent auditor's report

To the Board of Directors
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 statement of financial position as of December 31, 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in stockholders' equity and consolidated statement of cash flows for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, as of and for the year ended December 31, 2023, have been prepared, in all material respects, in accordance with the Accounting Criteria for Credit 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 Financial Statements* section of our report. We are independent of the Institution in accordance with the *Code of Professional Ethics* issued by the Mexican Institute of Public Accountants (IMCP) together with other ethical requirements that are relevant to our audits of financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with such requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The consolidated financial statements as of December 31, 2022, and for the year then ended, were audited by other public accountants, who issued their unqualified opinion on March 10, 2023, and are presented for comparative purposes only.

Key audit matters

Key audit matters are those that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as of and for the year ended December 31, 2023. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter, the following is a description of how it was addressed in our audit.

Key audit matter	How matter was addressed in the audit
Valuation of loan portfolio - preventive allowance for credit risk. See Note 9 to consolidated financial statements.	
<p>The preventive allowance for credit risk of commercial loan portfolio is determined in accordance with a methodology based on the classification and rating rules provided by the Banking Commission. Verification of the determination of such allowance requires assessing the integrity and relevance of the data base over which the criteria for assessing the credit standing of debtors are applied. In like manner, assessing the allowance requires verification of qualitative and quantitative factors used by the Institution for assessing the recoverability of the loan portfolio and compliance with the appropriate accounting criteria.</p> <p>Such matter involves significant Management estimates, hence we have determined the preventive allowance for credit risk as a key audit matter.</p>	<p>Assessment of such allowance is based on criteria provided by the Banking Commission, hence our review included the reprocessing of the calculations for verifying the application of such criteria by Management, including qualitative and quantitative factors used. In like manner, we reviewed the integrity and relevance of the data base used in the calculations and compared the results obtained in our tests with the information provided by the Institution. For this process we had the participation of our IT and loan portfolio valuation specialists.</p> <p>The aforementioned review was based on our previous evaluation of internal control related to the loan portfolio and to the preventive allowance for credit risk.</p>

Key audit matter	How matter was addressed in the audit
Derivative financial instruments. See Note 8 to the financial statements.	
<p>Valuation of derivative financial instruments is made based on the initial assignment, which determines the accounting treatment and presentation in the financial statements. Such valuation requires the application of complex models involving significant judgment by Management and collating information from several sources.</p> <p>Accounting for derivative financial instruments assigned for hedging purposes requires the periodic testing of the effectiveness of such instruments, which requires the participation of specialized personnel.</p> <p>Therefore, we have determined the assignment, valuation, and presentation of derivative financial instruments as a key audit matter.</p>	<p>Review of financial instruments included the participation of our specialists for assessing, based on random testing, the fairness in the valuation, accounting treatment and presentation in the financial statements.</p> <p>Our audit procedures included the study and evaluation of the internal control system set by the Institution necessary for ensuring the assignment, valuation, and presentation in accordance with the Accounting Criteria.</p> <p>Furthermore, our audit included the understanding of models and tools used by Management and verification of the effectiveness of such instruments.</p>

Responsibilities of management and those charged with governance for the Institution in connection with the consolidated financial statement.

Management is responsible for the preparation of the accompanying consolidated financial statements in accordance with the Accounting Criteria applicable to credit institutions, issued by the Banking Commission, and for such internal control as Management determines necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Institution's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless Management either intends to liquidate the Institution or to cease operations, or has no realistic alternative but to do so.

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

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 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 International Standards on Auditing 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 on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain 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 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 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 Company to cease to continue as a going concern.

- Obtain sufficient and appropriate audit evidence related to the financial information of the subsidiaries to express an opinion on the consolidated financial statements.

We communicate with those charged with Governance of the Institution 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 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 such matters in our auditor's report.

Mazars Auditores, S. de R.L. de C.V.

C.P.C. Fco. Javier Quiroz Sandoval
Partner

Mexico City, México
March 13, 2024



nacional financiera
Banca de Desarrollo

NACIONAL FINANCIERA, S.N.C.
INSTITUCIÓN DE BANCA DE DESARROLLO
Insurgentes Sur No. 1971, Ciudad de México
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2023 AND 2022
(Million of Mexican pesos)

ASSETS	2023		2022		LIABILITIES AND STOCKHOLDERS' EQUITY	2023		2022	
		\$		\$			\$		\$
CASH AND CASH EQUIVALENTS (Notes 3c and 5)		139,860		60,220	DEPOSIT FUNDING (Notes 3p and 14)				
MARGIN ACCOUNTS (DERIVATIVES)		90		44	Time deposits				
INVESTMENTS IN FINANCIAL INSTRUMENTS (Notes 3d and 6)					Money market	189,040		147,068	
For trading	205,144		212,590		Debt securities issued (Notes 15 and 16)	122,151	311,191	111,398	258,466
For collecting or selling (securities) (net)	20,655		23,966		INTERBANK LOANS AND LOANS FROM OTHER AGENCIES (Notes 3r and 7)				
For collecting principal and interest	11,427	237,226	11,183	247,739	Due on demand	18,808		11,299	
DEBTORS ON REPURCHASE/ RESELL AGREEMENTS NET (Notes 3s and 7)		47,320		232	Short-term	20,456	50,199	3,528	41,288
DERIVATIVES FINANCIAL INSTRUMENTS (Notes 3f and 8)					Long-term	10,935	193,970	26,461	180,334
Trading purposes	9,654		11,793		REPURCHASE/RESELL AGREEMENTS (Notes 3e and 7)				
Hedging purposes	12,511		2,867	14,660	COLLATERALS SOLD OR PLEDGED (Notes 3e and 7)				
VALUATION ADJUSTMENT FROM HEDGING OF FINANCIAL ASSETS	2,857	854		161	Repurchase/resell agreements (credit balance)		47,266		
LOAN PORTFOLIO WITH CREDIT RISKS STAGE 1 (Notes 3h and 9)					DERIVATIVE FINANCIAL INSTRUMENTS (Notes 3f and 8)				
Commercial loans					Trading purposes	9,656		11,801	
Business or commercial activities	46,488		49,570		Hedging purposes	4,171	13,827	9,548	21,349
Financial entities	155,511		133,842		VALUATION ADJUSTMENTS FROM HEDGING FINANCIAL LIABILITIES			(994)	(3,098)
Government entities	18,140	222,139	18,481	201,893	LEASE LIABILITY			5	
Consumer loans		13		15	OTHER ACCOUNTS PAYABLE (Note 1b)				
Residential mortgage loans					Creditors on settlement transactions	4,421			245
Medium-size and residential		61		73	Creditors for margin accounts				
TOTAL LOAN PORTFOLIO WITH CREDIT RISKS STAGE 1		222,213		201,981	Creditors on collateral received in cash				971
LOAN PORTFOLIO WITH CREDIT RISKS STAGE 2 (Notes 3h and 9)					Contributions payable				189
Commercial loans					Sundry creditors and other accounts payable	2,738	9,538	743	2,149
Business or commercial activities	2,775		3,330		INCOME TAX PAYABLE (Note 20)		70		24
Financial entities		2,775		3,503	EMPLOYEE BENEFITS LIABILITY (Notes 3s and 19)			2,076	2,878
Consumer loans		1		1	DEFERRED LOANS AND ADVANCE PAYMENTS			22	314
Residential mortgage loans					TOTAL LIABILITIES	627,170		503,703	
Medium - size and residential		1		2					
TOTAL LOAN PORTFOLIO WITH CREDIT RISKS STAGE 2		2,777		3,506	STOCKHOLDERS' EQUITY (Notes 3t and 21)				
LOAN PORTFOLIO WITH CREDIT RISKS STAGE 3 (Notes 3h and 9)					PAID-IN CAPITAL				
Commercial loans					Capital stock	10,387		10,387	
Business or commercial activities	423		427		Contributions for future capital increases formalized by the Board of Directors			3,326	
Financial entities	3,663	4,086	5,441	5,868	Paid stock premium	31,868	54,384	31,868	45,581
Consumer loans		4		3	EARNED CAPITAL				
Residential mortgage loans					Statutory reserves	3,115		3,115	
Medium-size and residential		6		5	Accumulated results	(22,524)		(14,322)	
TOTAL LOAN PORTFOLIO WITH CREDIT RISKS STAGE 3		4,096		5,876	Other comprehensive income				
LOAN PORTFOLIO (+/-) DEFERRED ITEMS		229,086		211,363	Valuation of financial instruments for collecting and selling	(46)		66	
(-)		(6)			Valuation of cash flow hedge instruments	464		176	
PREVENTIVE ALLOWANCE FOR CREDIT RISKS (Notes 3i and 9d)		(19,233)		(15,298)	Remeasurement of defined employee benefits	(1,694)		(2,330)	
TOTAL LOAN PORTFOLIO, NET		209,847		196,065	Effects of valuation in associate and affiliate companies	1,291	15	(19,304)	(12,016)
OTHER ACCOUNTS RECEIVABLE, NET (Notes 3j and 10)		9,180		11,658	CONTROLLING INTEREST		34,990		33,565
ADVANCED PAYMENTS AND OTHER ASSETS, NET		793		1,745					
PROPERTY, FURNITURE AND EQUIPMENT, NET (Notes 3k and 12)		1,404		1,402	NON-CONTROLLING INTEREST		1,565		1,743
ASSETS FOR RIGHTS TO USE PROPERTY, FURNITURE AND EQUIPMENT, NET		5		5	TOTAL STOCKHOLDERS' EQUITY		36,555		35,308
PERMANENT INVESTMENTS (Notes 3m and 13)		2,669		2,997	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	663,726		539,011	
DEFERRED INCOME TAX ASSET, NET (Notes 3o and 20b)		1,959		2,082					
INTANGIBLE ASSETS, NET		7		1	MEMORANDUM ACCOUNTS (Notes 3y and 22)				
TOTAL ASSETS		\$ 663,726		\$ 539,011		2023	2022		
					Contingent assets and liabilities	\$ 54,169	\$ 77,469		
					Loan commitments	362,509	311,244		
					Assets placed in trust or under mandate	2,284,978	2,022,974		
					Trusts	2,178,705	2,010,656		
					Mandates	106,273	12,318		
					Federal Government Financial Agent	271,781	337,863		
					Assets in custody or under administration	973,334	789,964		
					Collateral received by the entity (Notes 3e and 7)	47,217	62,223		
					Collateral received and sold or pledged as guarantee by the entity (Notes 3e and 7)	47,217	62,223		
					Interest accrued but not collected from past-due loan portfolio with credit risks stage 3	114	192		
					Other memorandum accounts	1,132,313	1,082,717		

The accompanying explanatory notes form an integral part of this financial statement.

These consolidated statements of financial position were prepared in accordance with the Accounting Criteria for Credit Institutions issued by the National Banking and Securities Commission pursuant to Articles 99, 101 and 102 of the Law of Credit Institutions, which are general and mandatory and were consistently applied. These consolidated statements of financial position reflect the transactions carried out by the Institution, as of the dates mentioned above, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

The above consolidated statements of financial position were approved by the Board of Directors under the responsibility of the undersigned officers.

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LUIS ANTONIO RAMÍREZ PINEDA
CHIEF EXECUTIVE OFFICER

MARÍA FERNANDA RUÍZ PADILLA
HEAD OF ADMINISTRATION AND FINANCE UNIT

RAÚL MARTÍNEZ MORÁN
ACCOUNTING AND BUDGET DIRECTOR

MANUEL ANAYA VALLEJO
INTERNAL AUDIT DIRECTOR

NACIONAL FINANCIERA, S.N.C.
INSTITUCIÓN DE BANCA DE DESARROLLO
Insurgentes Sur No. 1971, Ciudad de México
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2023 AND 2022
(Millions of Mexican pesos)

	<u>2023</u>		<u>2022</u>	
Interest income (Note 3v)	\$	43,632	\$	30,194
Interest expense		<u>(37,382)</u>		<u>(25,089)</u>
FINANCIAL MARGIN		\$ 6,250		\$ 5,105
Preventive allowance for credit risks (Note 3i)		(4,435)		(7,512)
FINANCIAL MARGIN ADJUSTED FOR PREVENTIVE ALLOWANCE FOR CREDIT RISKS		1,815		(2,407)
Commissions and rates income (Note 23)		4,885		4,547
Commissions and rates expenses (Note 23)		(187)		(204)
Financial intermediation result (Note 23)		(534)		(425)
Other operating income (expenses) (Note 23)		(10,772)		(7,351)
Administration and promotional expenses (Note 23)		<u>(3,848)</u>		<u>(2,937)</u>
OPERATING RESULT		(8,641)		(8,777)
Equity method in net result of other entities		17		39
RESULT BEFORE INCOME TAXES		(8,624)		(8,738)
Income taxes (Note 20a)		<u>240</u>		<u>848</u>
RESULT FROM CONTINUOUS OPERATIONS		(8,384)		(7,890)
Discontinued operations		-		-
NET RESULT		<u>(8,384)</u>		<u>(7,890)</u>
Other comprehensive income				
Valuation of financial instruments for collecting or selling		(112)		44
Valuation of cash flow hedge derivatives		288		68
Remeasurement of defined employee benefits		636		(364)
Effects of valuation in associate and affiliate companies		<u>12</u>		<u>(39)</u>
COMPREHENSIVE RESULT		\$ <u>(7,560)</u>		\$ <u>(8,181)</u>
Net result attributable to:				
Controlling interest	\$	(8,202)	\$	(7,772)
Non-controlling interest		<u>(182)</u>		<u>(118)</u>
Comprehensive result attributable to:				
Controlling interest		(7,378)		(8,063)
Non-controlling interest		<u>(182)</u>	\$ <u>(7,560)</u>	\$ <u>(118)</u>
				\$ <u>(8,181)</u>

The accompanying explanatory notes form an integral part of this financial statement.


These consolidated statements of comprehensive income were prepared in accordance with the Accounting Criteria for Credit Institutions issued by the National Banking and Securities Commission, pursuant to Articles 99, 101 and 102 of the Law of Credit Institutions, which are general and mandatory, and were consistently applied. These consolidated statements of comprehensive income reflect income and expenses arising from transactions recorded during the abovementioned period, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.


The above consolidated statements of comprehensive income were approved by the Board of Directors under the responsibility of the undersigned officers.

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 LUIS ANTONIO RAMÍREZ PINEDA
 CHIEF EXECUTIVE OFFICER


 RAÚL MARTÍNEZ MORÁN
 ACCOUNTING AND BUDGET DIRECTOR


 MARÍA FERNANDA RUIZ PADILLA
 HEAD OF ADMINISTRATION AND FINANCE UNIT


 MANUEL ANAYA VALLEDO
 INTERNAL AUDIT DIRECTOR

NACIONAL FINANCIERA, S.N.C.
INSTITUCIÓN DE BANCA DE DESARROLLO
Insurgentes Sur No. 1971, Ciudad de México
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2023 AND 2022
(Millions of Mexican pesos)

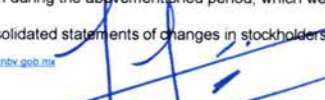
CONCEPT	Paid in capital					Earned capital					Controlling interest	Non-controlling interest	Total stockholders' equity
	Capital stock	Contributions for future capital increases authorized by the Board of Directors	Paid stock premium	Statutory reserves	Accumulated results	Valuation of financial instruments for collecting or selling	Valuation of cash flow hedge derivatives	Remeasurement of defined employee benefits	Effects of evaluation in associated and affiliate companies				
Balances at December 31, 2021	\$9,638	\$11,564	\$21,053	\$3,115	(\$6,472)	\$22	\$108	(\$1,966)	\$1,318	\$38,380	\$1,829	\$40,209	
Retropective adjustments for accounting changes	-	-	-	-	(91)	-	-	-	-	(91)	-	(91)	
ADJUSTED BALANCES AT DECEMBER 31, 2021	9,638	11,564	21,053	3,115	(6,563)	22	108	(1,966)	1,318	38,289	1,829	40,118	
CHANGES RESULTING FROM STOCKHOLDERS' RESOLUTIONS													
Capital contributions	-	3,326	-	-	-	-	-	-	-	3,326	-	3,326	
Capitalization of contributions for future capital increases	749	(11,564)	10,815	-	-	-	-	-	-	-	-	-	
Total	749	(8,238)	10,815	-	-	-	-	-	-	3,326	-	3,326	
Tax effects from prior years	-	-	-	-	13	-	-	-	-	13	-	13	
COMPREHENSIVE RESULT													
Net result	-	-	-	-	(7,890)	-	-	-	-	(7,890)	-	(7,890)	
Other comprehensive result	-	-	-	-	-	44	68	(364)	(39)	(291)	-	(291)	
Valuation of financial instruments for collecting or selling	-	-	-	-	-	44	-	-	-	44	-	44	
Valuation of cash flow hedge instruments	-	-	-	-	-	-	68	-	-	68	-	68	
Remeasurement of defined employee benefits	-	-	-	-	-	-	-	(364)	-	(364)	-	(364)	
Valuation effects on associated and affiliates	-	-	-	-	-	-	-	-	(39)	(39)	-	(39)	
Total	-	-	-	-	(7,890)	44	68	(364)	(39)	(8,181)	-	(8,181)	
Non-controlling interest	-	-	-	-	118	-	-	-	-	118	(86)	32	
Balance at December 31, 2022	\$10,387	\$3,326	\$31,868	\$3,115	(\$14,322)	\$66	\$176	(\$2,330)	\$1,278	\$33,665	\$1,743	\$35,408	
CHANGES RESULTING FROM STOCKHOLDERS' RESOLUTIONS:													
Capital contributions	-	8,803	-	-	-	-	-	-	-	8,803	-	8,803	
Total	-	8,803	-	-	-	-	-	-	-	8,803	-	8,803	
COMPREHENSIVE RESULT:													
Net result	-	-	-	-	(8,384)	-	-	-	-	(8,384)	-	(8,384)	
Other comprehensive results	-	-	-	-	-	(112)	288	636	12	824	-	824	
Valuation of financial instruments for collecting or selling	-	-	-	-	-	(112)	-	-	-	(112)	-	(112)	
Valuation of cash flow hedge instruments	-	-	-	-	-	-	288	-	-	288	-	288	
Remeasurement of define employee benefits	-	-	-	-	-	-	-	636	-	636	-	636	
Valuation effects on associated and affiliates	-	-	-	-	-	-	-	-	12	12	-	12	
Total	-	-	-	-	(8,384)	(112)	288	636	12	(7,560)	-	(7,560)	
Non-controlling interest	-	-	-	-	182	-	-	-	-	182	(178)	4	
Balance at December 31, 2023	\$10,387	\$12,129	\$31,868	\$3,115	(\$22,624)	(\$46)	\$464	(\$1,694)	\$1,291	\$34,990	\$1,565	\$36,555	

The accompanying explanatory notes form an integral part of this financial statement.

These consolidated statements of changes in stockholders' equity were prepared in accordance with the Accounting Criteria for Credit Institutions issued by the National Banking and Securities Commission, pursuant to Articles 99, 101 and 102 of the Law of Credit Institutions, which are general and mandatory and were consistently applied. These consolidated statements of changes in stockholders' equity reflect all movements in stockholders' equity accounts arising from transactions conducted by the Institution during the abovementioned period, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

The above consolidated statements of changes in stockholders' equity were approved by the Board of Directors under the responsibility of the undersigned officers.

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NACIONAL FINANCIERA, S.N.C.
INSTITUCIÓN DE BANCA DE DESARROLLO
Insurgentes Sur No. 1971, Ciudad de México
CONSOLIDATED STATEMENTS OF CASH FLOWS*
YEARS ENDED DECEMBER 31, 2023 AND 2022
(Millions of Mexican Pesos)

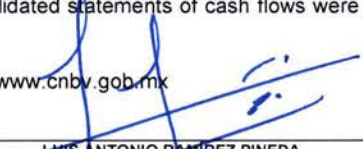
	<u>2023</u>		<u>2022</u>	
Operating activities				
Result before income taxes	\$	(8,624)	\$	(8,738)
Adjustments for items associated with investing activities:				
Effects of changes in value of cash and cash equivalents		-		62
Depreciation of property, furniture and equipment	39		\$	41
Equity method of unconsolidated subsidiaries and affiliates	165			80
Other adjustments for items associated with investment activities	1,066	1,270	699	882
Adjustments for items associated with financing activities:				
Interest associated with interbank loans and loans from other entities	(2,702)	(2,702)	(1,385)	(1,385)
Operating activities:				
Change in margin accounts (derivative financial instruments)	(46)		148	
Change in investments in financial instruments (securities) (net)	9,536		15,432	
Change in debtors and repurchase/resell agreements (net)	(47,088)		(232)	
Change in derivative financial instruments (assets)	1,494		(3,835)	
Change in loan portfolio (net)	(13,782)		(19,128)	
Change in other accounts receivable (net)	2,478		(1,025)	
Change in other operating assets	1,303		(728)	
Change in deposit funding	60,552		21,580	
Change in interbank loans and loans from other entities	7,475		(5,029)	
Change in creditors on repurchase/resell agreements	13,428		33,062	
Change in collateral sold or pledged	47,266			
Change in derivative financial instruments (liabilities)	(4,337)		1,954	
Change in other operating liabilities	414		(94)	
Change in assets/liabilities for employee benefits	(802)		2,878	
Change in other accounts payable	7,315		(8,684)	
Payments of income taxes	(23)		(6)	
Net cash flows from operating activities		85,183		36,293
Investing activities				
Payments for acquisitions of property, furniture and equipment	(36)		(36)	
Proceeds (payments) from disposal (purchase) of subsidiaries and associates, joint ventures and other permanent investments	178		(21)	
Collection of cash dividends from permanent investments	-		42	
Other collections for investment activities	51		-	
Net cash flows from investing activities		193		(15)
Financing activities				
Contributions for future capital stock increases	8,803		3,326	
Net cash flows from financing activities		8,803		3,326
Net increase in cash and cash equivalents		84,123		30,363
Effect of changes in value of cash and cash equivalents		(4,483)		(62)
Cash and cash equivalents at beginning of period		60,220		29,919
Cash and cash equivalents at end of period	\$	<u>139,860</u>	\$	<u>60,220</u>

The accompanying explanatory notes form an integral part of this financial statement.

These consolidated statements of cash flows were prepared in accordance with the Accounting Criteria for Credit Institutions issued by the National Banking and Securities Commission, based on Articles 99, 101 and 102 of the Law of Credit Institutions which are of general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all cash inflows and outflows arising from transactions conducted by the Institution during the abovementioned period, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.


The above consolidated statements of cash flows were approved by the Board of Directors under the responsibility of the undersigned officers.

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 LUIS ANTONIO RAMÍREZ PINEDA
 CHIEF EXECUTIVE OFFICER

 RAÚL MARTÍNEZ MORÁN
 ACCOUNTING AND BUDGET DIRECTOR



 MARÍA FERNANDA RUIZ PADILLA
 HEAD OF ADMINISTRATION AND FINANCE UNIT

 MANUEL ANAYA VALLEJO
 INTERNAL AUDIT DIRECTOR

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(figures in millions of Pesos)

1. THE INSTITUTION

- Nature of operations and main activities

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

The Institution has its offices at Avenida Insurgentes Sur 1971, Colonia Guadalupe Inn, Alcaldía Álvaro Obregón, CP 01020, Mexico City.

The Institution operates as a development financial institution in accordance with its Organic Law and Regulations, the Financial Institutions Law (LIC for its acronym in Spanish), the General Provisions Applicable to Financial Institutions (the Provisions or CUB for its acronym in Spanish) issued by the National Banking and Securities Commission (the Banking Commission or CNBV for its acronym in Spanish). Development financial institutions will support those productive activities that Mexican Congress determines as a specialty for each one of them, in the respective organic laws.

The Institution's corporate purpose consists in the development of companies, providing them access to financial products, training, technical and information assistance, in order to foster their competitiveness and productive investments; promote the development of strategic and sustainable projects for Mexico, in orderly and targeted manner, under schemes that allow correction of market failures in coordination with other development banks; foster regional and sectorial development, in particular states with lesser development, through an offer of differentiated products and in accordance with the production vocation of each region; develop the financial markets and the industry of venture capital throughout the country, to serve as financing sources for entrepreneurs and small and medium companies to be an efficient and transparent institution with an effective management, based on a consolidated corporate government structure, ensuring a continuous and transparent operation, as well as the preservation of its equity in real terms, for the purpose of not representing a financial burden for the Federal Government. The foregoing in accordance with the provisions of Article 2 of the Institution's Organic Law.

The operation and performance of the Institution is carried out in strict observation of the applicable legal framework and sound banking practices and applications to achieve the general objectives laid down in Article 4 of the Financial Institutions Law which establishes that the State shall exert the rectory of Mexican banking system, so that financial institutions aim their activities to fundamentally support and promote the development of the productive forces and growth of the national economy, based on a sovereign economic policy, by promoting savings in all sectors and regions in Mexico and their appropriate distribution and extensive regional coverage that promotes the decentralization of the Mexican banking system itself, in adherence to sound practices and banking applications.

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 stem from loans from international development institutions such as the World Bank and the Inter-American Development Bank (IDB). Likewise, the Institution receives funding from the Mexican Central Bank (Banxico) as well as lines of credit from foreign banks and placement of securities in the national and international markets.

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The consolidated financial statements as of and for the years ended December 31, 2023 and 2022 include those of Nafin and those of its direct controlled Subsidiaries, as listed below:

- i. *Operadora de Fondos NAFINSA, S.A. de C.V.* – Its purpose being to contribute for the development of financial markets, fostering access to small and medium investors to the securities market. (Ownership 100%).
- ii. *Corporación Mexicana de Inversiones de Capital, S.A. de C.V.* - The main activity consists in buying, selling and investing in companies, institutions and private equity funds, as well as promoting productive, medium and long-term investments in Mexico, favoring the institutionalization, development and competitiveness of small and medium size companies. (Ownership 82.96%).
- iii. *Fideicomiso 80595 Programa de venta de títulos en directo al público* – Manages trust funds and carries out the necessary actions to develop and implement the *program for the direct sale of securities to the general public*, in accordance with the Rules of Operation which, as applicable, are authorized by the Technical Committee of the Trust. (Ownership 100%).
- iv. *Fideicomiso 11480 Fondo para la participación de riesgos* – Its purpose is having entities that allow fulfilling the institutional objectives connected with the access of domestic micro, small and medium-sized companies to formal financing. The Institution instrumented a guarantee program through which it shares with banking and non-banking financial institutions (intermediaries) as determined by the Trust's Technical Committee, the credit risk of financing granted by intermediaries to domestic companies and individuals. (Ownership 100%).
- v. *Fideicomiso 11490 Fondo para la participación de riesgos en fianzas* – It has the purpose of sharing with domestic surety institutions incorporated in accordance with the Insurance and Surety Institutions Law as determined by the Trust's Technical Committee, the risk of default on the administrative surety and/or the procurement concerning Section III, Article 36 of the Insurance and Surety Companies Law, which have granted to micro, small and medium-sized companies, as well as to individuals with entrepreneurial activity, which have entered to a contract to supply goods, services and public works to the Federal Public Administration. (Ownership 100%).
- vi. *Fideicomiso 80757 Defensa y asistencia legal*- Its purpose is to manage the estate and pay for the considerations for defense and legal assistance to the beneficiaries (Nafin personnel) who in discharging their work become immersed in legal or administrative proceedings.
- vii. *Plaza Insurgentes Sur, S.A. de C.V.* – Its purpose is to provide the Institution comprehensive real estate services through office and furniture leasing arrangements, as well as adapting office space with the preventive and corrective maintenance programs for real estate infrastructure. (Ownership 100%).
- viii. *Pissa Servicios Corporativos, S.A. de C.V. (in liquidation)* – Provided complementary or auxiliary services in the management or in the realization of the corporate purpose of any domestic credit institution of which it was a shareholder, as well as auxiliary companies and trusts thereof. (Ownership 100%).

The structure of the Institution's foreign operations, consist of the branch office in London, England.

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Relevant event (unaudited information)

Inflation and interest rate

On occasion of a high inflation rate, the Governing Board of the Mexican Central Bank determined to maintain at 11.25% the objective for the one-day Interbank Interest Rate of Equilibrium (TIEE for the acronym in Spanish) starting from December 14, 2023. This monetary policy stand by Banxico seeks that inflation converges to its goal of 3% general annual inflation.

Application of the new interest rates of reference

Transition from TIEE terms over one day to Funding TIEE

In January 2020, Banco de México started publishing the Funding TIEE. For this reason, it entertained the need to prohibit the use of TIEE terms over one day as a reference for new contracts entered with financial entities subject to the regulation released by Banxico, hence carrying out several actions:

1. Prohibited the use of TIEE at 91 and 182 days for new contracts entered starting from January 1, 2024.
2. Shall prohibit the use of TIEE at 28 days for new contracts formalized starting from January 1, 2025.

As from the dates previously mentioned, financial entities shall refrain from using TIEE at terms greater than one day for their new operations and will only use as reference the Funding TIEE or any other rate that fulfills with the provisions in the regulation issued by Banxico.

Interest rates of reference reform

After the financial crisis, regulators of the financial markets, both in Mexico at the international level, carried out improvements to the regulation to substitute or amend the determination of interest rates of reference, such as the London Interbank Offered Rate (LIBOR), the Euro Interbank Offered Rate (EURIBOR) and other rates of interbank offer (Interbank Offered Rates or IBOR).

The Institution followed closely the financial markets and the results of several task groups of the industry that managed the transition towards the new interest rates of reference. This included announcements made by the LIBOR regulators, including the United Kingdom Financial Conduct Authority (FCA) and the United States Commodity Futures Trading Commission (CFTC) in respect to the transition of LIBOR, including the sterling pound LIBOR (GBP LIBOR) to Sterling Overnight Index Average rate (SONIA), the US dollar LIBOR (USD LIBOR) to Secured Overnight Financing Rate (SOFR) and the one Japanese yen LIBOR (JPY LIBOR) to Tokyo Overnight Average rate (TONA).

On December 29, 2021, by circular 13/2021, Banco de México determined that they could be used as reference rates, among other, the SOFR rate and those from it deriving. SOFR rate is based on daily financial transactions collated by the US Federal Reserve. It is a rate built up daily based on the repurchase market operations of US Treasury bonds, published the next business day and eliminates the risk associated to the judgment of experts, since it is based on actual transactions.

During the month of January 2022, at an institutional level, the Credit Internal Committee approved changes in several sections of the Credit Regulation System for the implementation of the SOFR rate for operations carried out in dollars at a variable rate. Meanwhile, the General Risk Management Committee (CAIR for the acronym in Spanish) approved the updating of the risk factor matrix which entertains such new interest rates in March 2022.

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In consideration that LIBOR rate was no longer published by June 30, 2023, and the substitute rate is SOFR (Secured Overnight Financing Rate), the Institution commenced using both SOFR and SOFR Term rates in lieu of LIBOR rate:

- Daily capitalizable SOFR during the interest payment period, published by the US Federal Reserve (FED), with 24-hour application.
- Term SOFR, providing an indicative rate and forward-looking for SOFR rate, based on SOFR future prices in the derivative markets, with a 48-hour application. Terms of 1, 3, 6 and 13 months are published by the Chicago Mercantile Exchange (CME).

The main features of SOFR rate are those described below:

- Based on daily transactions with government paper as collateral of market operations.
- Is created from transactions performed (backward-looking): Overnight with no forward maturity.
- Risk-free rate not incorporating credit nor liquidity risk components.
- A spread is added to even out the exposure.

Business units being impacted by adoption of the new reference rates were the following:

Business unit	Operations
Credit and guarantee	Credits in dollars (first and second tier) and guarantee operations
Derivative Financial Instruments	Interest rate swaps and cross currency swaps
Deposit funding and treasury operations	Securities issued, investments and deposits, besides dollar funding facilities

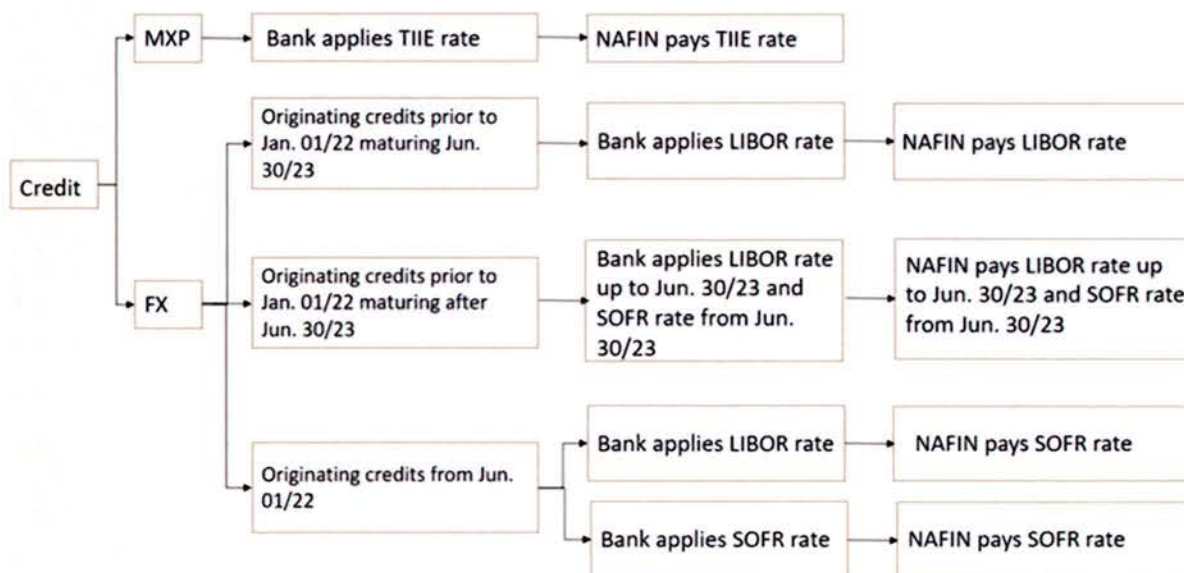
Progress in the transition period

The Institution carried out the necessary actions to fully comply with the transition process of SOFR and Term SOFR rates in substitution of the LIBOR rate. Operations maturing after June 2023, were restructured in their majority with SOFR Term leaving a minimum portion with daily SOFR, searching to maintain the same financial terms originally agreed upon.

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Credits and Guarantees

In respect to the Automatic Guarantee Program, definitions provided for the coverage of credits guaranteed in dollars and the application of transition LIBOR/SOFR rates was the following:



The Comprehensive Guarantee Management System (SIAG for the acronym in Spanish), starting May 2022, allows the registration of credits guaranteed in dollars formalized by the Financial Intermediaries with SOFR rate.

Likewise, the SIAG relies on since that same date, the corresponding catalogs corresponding to the values of the Term SOFR rate for 1, 3, 6 and 12 months, which are updated daily.

In accordance with the definitions laid down in the Guarantee Program, credits guaranteed in dollars in force at the closing of December 2023, in the event of being claimed by a Financial Intermediary, shall rely on a coverage applying the corresponding Term SOFR, registered in the SIAG catalogs.

Below, it is shown a summary of credits guaranteed as of December 31, 2023:

<u>TERM SOFR Coverage</u>	<u>Number of Guarantees</u>	<u>Balance guaranteed in USD</u>	<u>Balance guaranteed in MXN</u>	<u>%Balance</u>
Credits originated prior to Jan 01, 2022	110	\$ 19	331	81%
Credits originated prior to Jan 01, 2022 and maturing after Jun 30, 2023	29	5	78	19%
Total automatic guarantee	139	\$ 24	409	100%

Derivative Financial Instruments

As for the derivative business line are considered Swap operations at interest rates in dollars and foreign exchange Swaps (cross currency swaps) being carried out mainly to cover the bank's balance. In June 2023, operations referenced at daily capitalization rates began being agreed upon.

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Treasury operations

The Treasury Department on the liability side does not carry any current operation at variable rate based on SOFR or Term SOFR, while on the derivatives side that was referenced at LIBOR rate, was migrated in its vast majority to Term SOFR, and a lesser portion to daily SOFR.

Impacts on risk management for adoption of new reference rates

The Institution has Management, Control and Risk Management models approved by its Comprehensive Risk Management Committee (CAIR), which are applied directly to those instruments referenced at SOFR rates considering those particular characteristics; it should be noted that, being only a new reference rate, the models previously pointed out suffered no changes; however, as deemed necessary, the necessary calibrations will be carried out.

The Institution's risk management strategy has not experienced any changes on occasion of the interest rates of reference reform, retains a capital structure focusing on the granting of credits in accordance with its mandate and profile in a conservative market, maintaining the total of its operations both asset and liability at revisable rate.

2. APPROVAL AND BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND SURVEILLIANCE.

Approval

On March 13, 2024, Luis Antonio Ramírez Pineda (Chief Executive Officer), María Fernanda Ruiz Padilla (Head of the Administration and Finance Unit), Manuel Anaya Vallejo (Internal Audit Director) and Raúl Martínez Morán (Accounting and Budget Director) approved the release of the accompanying consolidated financial statements and their notes, as of December 31, 2023 and for the year then ended, to be submitted for the approval of the Board of Directors of the Institution at its forthcoming meeting. Said Board and the Banking Commission have the power to modify the consolidated financial statements after their approval and release.

The Institution is under the supervision and oversight of the Banking Commission and Banxico which is exerted through a follow-up process, inspection visits, information, and documentation requirements, as well as delivery of reports.

Basis of presentation

a) Statement of compliance

The accompanying consolidated financial statements as of December 31, 2023 and 2022 and for the years then ended have been prepared in accordance with the Accounting Criteria provided by the Banking Commission (the Accounting Criteria) which are included in the General Provisions Applicable to Credit Institutions, as well as general and particular official notices issued by said Commission.

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b) Financial information framework

The accompanying consolidated financial statements were prepared in accordance with banking legislation and in accordance with the Accounting Criteria for Credit Institutions in Mexico set out by the Banking Commission. The accounting records of Credit Institutions is adjusted to the basic structure which for the application of Mexican Financial Reporting Standards (NIF for the acronym in Spanish) defined by the Mexican Financial Reporting Standards Board (CINIF for its acronym in Spanish), in NIF A-1, *Structure of financial reporting standards*.

By virtue thereof, the institutions shall consider in first instance the rules contained in NIF Series A, Conceptual framework, as well as that provided in Accounting Criteria A-4, Suppletory application of accounting criteria. In this manner, the institutions shall observe the accounting guidelines set out by NIFs, except when in the opinion of the Banking Commission it is necessary to apply the rule or specific accounting criteria, taking into consideration that the entities carry out specialized operations. This accounting ruling is at the level of recognition, valuation, presentation, and disclosure, applicable to specific captions in the financial statements of the institutions, as well as with those applicable for their preparation. It shall not proceed the application of accounting criteria, nor the suppletory concept, in the case of operations which by express legislation are not allowed or are prohibited, or else, are not expressly authorized for the entities by the Banking Commission.

The Accounting Criteria provide that in the absence of a specific criterion by the Banking Commission for Credit Institutions, and in a wider context in the Financial Information Standards (NIF), the suppletory process as set out by NIF A-8, shall be applicable and only when the IFRSs referred to by NIF 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 NIFs are met by the standard. The supplementary application shall be made in the following manner: US GAAP and then any other accounting standard that is part of a formal recognized set of standards provided they do not contravene the Accounting Criteria of the Banking Commission.

The accompanying consolidated financial statements have been prepared to comply with the regulatory requirements which the Institution is subject to, thus they could not be appropriate for any other purpose.

On March 13, 2020, the Banking Commission published in the Daily Gazette of the Federation, the Resolution amending the General Provisions Applicable to Credit Institutions, which incorporates new reporting standards issued by the Mexican Financial Reporting Standards Board mandatory starting January 1, 2022, in accordance with amending Resolution published in the Daily Gazette on December 4, 2020.

On December 2, 2022, in the Official Gazette of the Federation a new modifying Resolution was published. This amends the Resolution modifying the general Provisions published on January 4, 2018, which establishes the accounting criteria to which players of the market of derivative contracts will be subject to and has the purpose of incorporating NIFs to standards applicable to the preparation of the accounting of clearing houses and settlement partners participating in the markets of listed derivative contracts. Although this modifying Resolution, if effective date is extended to June 1, 2024 with the purpose of providing players of the market of derivative contracts with the opportunity to adapt their accounting systems.

c) Going concern

The consolidated financial statements were prepared based on the going concern accounting principle. Although stockholders' equity reports accumulated losses for \$22,524 as of December 31, 2023, and the statement of results a loss in year 2023 for \$8,202, these results are significantly influenced by the annual charge for benefits made by the Ministry of Finance and Public Credit (SHCP for its acronym in Spanish) (see Note 22), thus the operations carried out by the Institution, as a whole, are consistently profitable, before such annual charge.

Furthermore, the very nature of the Institution, described in its Organic Law and summarized in Note 1 above, implies that its continuity is primarily dependent on the decision which to that effect is maintained by the Mexican Federal Government.

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Regardless of the foregoing, Institution's Management performed the necessary evaluations to sustain the preparation of consolidated financial statements based on the Going Concern principle and considers it as the appropriate basis for their preparation.

d) Monetary unit

The accompanying consolidated financial statements and their notes are presented in Mexican pesos, currency corresponding to the registration and functional currencies. For purposes of disclosure in the notes to the consolidated financial statements when reference is made to millions of pesos or "\$", it refers to millions of Mexican pesos, and reference is made to dollars or "USD", it is referred to millions of United States dollars.

e) Assets and liabilities recognition and derecognition

Recognition or derecognition in the consolidated financial statement of assets and liabilities, including those stemming from purchase and sale transactions of foreign currencies, financial instruments, repurchase agreement transactions, securities lending, derivative financial instruments, and securities issues, is made on the date in which the transaction was formalized, regardless of the date of settlement or the good delivery date.

f) Use of judgments and estimates

In preparing the consolidated financial statements, Management requires to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates and assumptions.

g) Assumptions and uncertainties in the estimates

Information on assumptions and uncertainties in the estimates having a significant risk of resulting a material adjustment to the amounts of carrying amounts of assets and liabilities in the following year is included in the following notes:

- Note 3 (d)- Measurement of fair value of financial instruments;
- Note 3 (s)- Measurement of defined benefit obligations: key actuarial assumptions;
- Note 3 (o)- Recognition and valuation of deferred tax assets;
- Note 3 (q)- Recognition and valuation of provisions and contingencies;
- Note 8- Derivatives;
- Note 9 (d)- Preventive allowance for credit risks.

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h) Comprehensive income

Comprehensive income comprises the net income (loss) for the year increased or decreased by Other Comprehensive income (OCI), net of the effects of tax on income and the participation of profits to the related personnel. Other consist of income, cost and expenses which accrued, of which realization is still pending and it is likely that their amount varies due to changes in the fair value of those assets or liabilities that gave them origin, reason for which they could not be realized in part or in full, in addition to the fact that realization is foreseen in the medium or long-term. When such results are realized, they are recycled to comprehensive income of prior year. Others are comprised by: valuation of financial instruments to collect or sell, valuation of financial instruments derived from hedging of cash flows, remeasurement of defined benefits to employees and the valuation effects in associated and affiliated companies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies being used in preparation of the consolidated financial statements are described below, and were applied on a consistent basis:

a. Consolidation of financial statements

The consolidated financial statements as of December 31 2023 and 2022 and for the years then ended include assets and liabilities and results of the Institution and its subsidiary companies, over which it exerts control through the power it has over them to direct their relevant activities, is exposed or has the right to variable returns stemming from such participation and has the ability to affect such returns through its power over such subsidiaries. All balances and material operations between the Institution and its subsidiaries have been eliminated in consolidation, including unrealized profits and losses. Consolidation was carried out based on the financial statements of subsidiary companies as of December 31, 2023 and 2022 and for the years then ended, the accounting basis of such financial statements are the Accounting Criteria provided by the Banking Commission and Financial Reporting Standards, as appropriate.

b. Effects of inflation

In year ended December 31, 2023, the Institution operated under a non-inflationary environment (accumulated inflation for the three annual periods less than 26%), in accordance with the provisions of Accounting Criteria issued by the Banking Commission; consequently, the effects of inflation in the financial information included in the accompanying consolidated financial statements are not being recognized. Such consolidated financial statements include recognition of inflation based on Unidades de Inversión (Investment Units or UDIs for the acronym in Spanish) up to December 31, 2007, in accordance with applicable Accounting Criteria.

In the event of a return to an inflationary environment, the cumulative unrecognized effects of inflation during the years in which the environment was considered as non-inflationary, shall be registered retrospectively. The percentage of annual and cumulative inflation for the last three years and the factor used to determine the inflation, are shown below:

December 31	UDI	Inflation	
		For the year	Cumulative
2023	7.981602	4.38%	20.83%
2022	7.646804	7.58%	19.50%
2021	7.108233	7.61%	14.16%

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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 for foreign currency purchase and sale transactions. It also includes restricted cash and cash equivalents comprised by bank borrowings with original terms of up to three days or less ("Call money") and deposits in Banco de México (Central Bank) which include the monetary regulation 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 interest at the average funding bank rate, recognized in the consolidated results as accrued. Note 6 includes the integration, in figures, of this caption.

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

Cash equivalents are short-term securities, with high liquidity, readily convertible to cash, which are subject to insignificant risks of changes to their value and are held to meet short-term commitments rather than for investments purposes; they are denominated in local or foreign currency: for example, bank borrowing transactions agreed at term shorter or equal to 3 business days, the purchase of foreign currencies which are not considered derivative financial instruments according to the provisions of Banxico in the applicable regulation, as well as other cash equivalents such as correspondents, immediately redeemable notes, coined precious metals and highly liquid financial instruments.

Interbank loan transactions agreed at a term shorter than or equal to 3 business days, as well as deposits with Banxico which cannot be disposed of, are recognized as restricted cash equivalents.

Notes receivable will be recorded as other cash equivalents 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 notes are not collected within the established deadlines, the related amounts will be transferred to the originating item, either "Other accounts receivable" or "Loan portfolio".

Transactions transferred to sundry debtors under caption "Other accounts receivable", and maintained as collection pending after fifteen calendar 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 caption "Other memorandum accounts".

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

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

Foreign exchange currencies acquired and agreed to be settled in 24, 48 and 72 hours purchase/sell transactions are recorded as restricted cash (foreign currency receivable), while currency sold is recorded as cash outflow (foreign currency deliverable).

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The rights and obligations from 24, 48 and 72 hours sales and purchases of foreign exchange are recorded in clearing accounts under caption "Other accounts receivable" and "Creditors on settlement of transaction", respectively.

If the balance resulting from offsetting the foreign currency receivable and the foreign currency deliverable or any concept making up the caption "Cash and cash equivalents" turned out to show a negative balance, said amount is presented under caption "Other accounts payable".

d. Investment in financial instruments

The Institution establishes the business model it uses to manage its investments in financial instruments for their proper classification.

The business model is based on the form the financial instruments are managed to generate cash flows upon carrying out the activities and it is not based on the intentions of the Institution's Management in relation to any instrument.

Assets from financial instruments are classified as follows:

Negotiable financial instruments. - Negotiable financial instruments (IFN for the acronym in Spanish) are those securities in which the business model has the purpose of investing to obtain a gain between the buy and sell price, that is, depending on the differences in pricing resulting from the market transaction.

Financial instruments for collecting or selling. - Financial instruments for collecting or selling (IFCV for the acronym in Spanish) are those securities in which the business model has the purpose of collecting the contractual cash flows on principal and interest or otherwise, of obtaining a gain on its sale when advisable.

Financial instruments for collecting principal and interest. - Financial instruments for collecting principal and interest (IFCPI for the acronym in Spanish) are those securities in which the business model has the purpose of collecting contractual cash flows on preestablished dates corresponding payments on principal and interest on the outstanding amount of principal and interest. Therefore, the IFCPI should have the features of a financing and be managed based on their contractual yield.

- Negotiable financial instruments (IFN)

After their initial recognition, IFNs (for the acronym in Spanish), are recognized at fair value, and it is normally the price of the consideration agreed upon on the entering date; any transaction cost is recognized immediately in the consolidated statement of comprehensive income under caption "Financial intermediation result".

After their initial recognition, IFNs are valued at their fair value determined by the Price Vendor according to the provisions laid down by the Banking Commission. In the event of investments in non-listed IFNs, second and third level fair values are used.

The difference between the previous carrying amount and the current fair value of investments in IFNs is recognized in the consolidated statement of comprehensive income under caption "Financial intermediation result".

A dividend from an equity IFN is recognized in the year's results when the right to receive payment arises, it is likely the benefit will be received, and its amount can be determined.

Likewise, given that the fair value of an equity IFN can be reduced once the dividend is declared, simultaneously the account receivable from the dividend is recognized, as well as the change in the fair value of the equity IFN.

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The exchange gain or loss from investments in IFNs denominated in foreign currency is recognized in the year's results under caption "Financial intermediation result".

This caption includes entries for transactions pending settlement corresponding to purchase/sale transactions of non-settled assigned securities, which are valued at and recorded as investments in IFNs recognizing in and out of securities subject matter of the transaction upon their entering into against the corresponding debit or credit settlement account.

When securities are alienated, the gain or loss on the purchase is determined by the difference between the selling price and the last recorded carrying amount (fair value), cancelling the result from valuation.

- **Financial instruments for collecting or selling (IFCV)**

Upon initial recognition, investments in IFCVs (for the acronym in Spanish) are valued at their fair value, which is normally the price of the consideration agreed upon on the entering date. For the subsequent valuation, the Institution determines the increase or decrease on valuation of the IFCV at fair value, using updated prices provided by the Price Vendor in accordance with the provisions of the Banking Commission.

In the event of incurring in a transaction cost in the acquisition of an IFCV, this is recognized as implicit part of the amortized cost of the IFCV and charged to the year's results during the expected life of the IFCV, based on its effective interest rate.

IFCVs denominated in foreign currencies or in other exchange unit are recognized initially at the fair value applicable on the date of the transaction. Exchange differences stemming on date of the transactions and dates of collection or settlement, as well as those resulting from translation to Mexican pesos of balances in foreign currencies at the date of the financial statements are applied to results.

The unrealized gain or loss resulting from the valuation is recorded as "Other comprehensive income" (OCI) in stockholders' equity under caption "Valuation of financial instruments for collecting or selling", provided that such securities have not been defined as hedged in a fair value hedging relationship of a derivative financial instrument in which case its valuation is recognized in the year's result in relation to the hedged risk.

Before recognizing in Other the effects of valuation in the IFCVs, the reductions in their fair value attributable to an impairment for expected credit losses are recognized in the year's results.

The effect from valuation is canceled to have it recognized in results upon sale under caption "Result from intermediation".

Interest accrued is determined in accordance with the method of effective interest rate method and recognized in the year's results under caption "Interest income".

Dividends from equity instruments are recognized in the year's results, when the right to receive payment arises.

Financial instruments for collecting principal and interest (IFCPI)

An IFCPI (for the acronym in Spanish) is recognized initially based on fair value, which corresponds to the transaction price, unless it is evident that it is significantly different from the quoted price in the IFCPI market or from other transactions observed in the market or based on valuation techniques which variables include only information observable from active markets; if such price is different, the IFCPI value is adjusted with effect on the year's results.

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The IFCPI's fair value is added or subtracted the transaction costs; the resulting amount is the gross value at which the IFCPI is initially recognized, which is the basis for applying the effective interest method with the effective interest rate. The gross value of the IFCPI reduced by the amount of expected credit losses of the IFCPI, represents the amortized cost if the IFCPI at its initial recognition. Any transaction cost incurred by the Institution in the acquisition of an IFCPI is recognized as implicit part of the amortized cost if the IFCPI and charged to the year's results during the expected life of the IFCPI, based on its effective interest rate.

IFCPIs denominated in foreign currencies or in other exchange unit are registered at the exchange rate applicable at the date of the transaction. Exchange differences incurred between the date of execution of the transactions and dates of collection or settlement, as well as those derived from translation of balances to Mexican pesos denominated in foreign currencies are applied to results at the date of the financial statements.

In some cases, an IFCPI is considered with credit impairment since its initial recognition either because the credit risk is high or since it was acquired with a very high discount. In such case, for its initial recognition, it is considered as a financial instrument in Stage 3 credit risk.

After their initial recognition, IFCPIs are valued at their amortized cost. The amortized cost includes increases in accrued effective interest, decreases in the amortization of transaction costs, and decreases in collections of principal and interest.

IFCPIs denominated in foreign currency or any other exchange unit are registered at the applicable exchange rate at the date of execution. Exchange differences arising between the execution date of the transactions, and date of collecting or payment, as well as those derived from the translation to Mexican pesos of balances denominated in foreign currency as of the date of the financial statements, are applied to results.

- **Reclassifications**

The Institution reclassifies its investments in financial instruments only if its business model is modified. These changes are determined by the Highest Operating Decision-Making Authority of the Institution and are the result of external and internal changes that are significant for its operations and may be proved by third parties.

Financial instrument impairment

Where sufficient objective evidence exists that a financial instrument for collecting or selling, or for collecting principal and interest has been impaired because one or more events that occurred after the financial instrument initial recognition, the carrying amount of the financial instrument is modified and the impairment is recognized in the year's results under caption "Results from intermediation".

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

e. Repurchase/resell agreement transactions

Repurchase/resell agreement transactions are those whereby borrower of securities (or buyer) pays a certain amount to acquire ownership of debt securities and agrees to transfer to lender of securities (or seller) ownership of certain other securities of the same type, in the agreed period, with reimbursement of the same price plus a premium. The premium is due to the borrower of securities, unless otherwise stipulated in the agreement.

For legal purposes, repurchase/resell agreement transactions are considered a sale whereby there is a repurchase agreement for the transferred financial assets. Nonetheless, the economic substance of repurchase/resell agreement transactions is the one of a financing under collateral, whereby the borrower of securities delivers cash as financing, in return for obtaining financial assets that serve as protection in the event of default.

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A borrower of securities is that entity that delivers cash, through a repurchase/resell agreement transaction, in which it receives financial assets as collateral, with the obligation of returning them to the lender of securities at the end of the transaction, receiving the cash plus the agreed interest for the repurchase/resell agreement.

A lender of securities is that entity that receives cash, through a repurchase/resell agreement transaction in which it transfers financial assets as collateral, with the obligation of returning to the borrower of securities at the end of transaction, cash, and the agreed interest for the repurchase/resell agreement.

The accounting treatment of the “cash-oriented” or the “securities-oriented” repurchase/resell agreement transaction is the same.

At trade date of the repurchase/resell agreement transaction, the Institution acting as lender of securities or seller recognizes either cash inflow or a debit clearing account, as well as an account payable, whereas when acting as borrower of securities or buyer recognizes either 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 terms of the repurchase/resell agreement transaction, the account receivable and the account payable are valued at amortized cost, recognizing the interest of the repurchase/resell agreement transaction in results of operations for the year as accrued, in accordance with the effective interest method. 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 accrued are reported in the financial statements caption “Debtors on repurchase/resell agreements” and “Creditors on repurchase/resell agreements”, respectively.

The Institution acts as borrower of securities or buyer recognizes the received collateral in memorandum accounts under caption “Collateral received by the entity”.

Financial assets granted as collateral when the Institution is acting as lender of securities or seller, are reclassified in the consolidated statement of financial position under caption “Investments in financial instruments”, reporting the instrument as a restricted asset.

Should the Institution, acting as borrower of securities or buyer sell or pledge the collateral, the proceeds from the transaction are recognized and the account payable is recorded for the obligation to return the collateral to the lender of securities or seller, which is valued, in the case of a sale at fair value or, if pledged in another repurchase/resell agreement, at amortized cost.

Additionally, the collateral received, delivered or sold is recognized in memorandum accounts under caption “Collateral received and sold or pledged in by the entity”.

f. Derivative financial instruments

A derivative financial instrument (IFD for the acronym in Spanish) is an independent financial instrument which value changes in response to changes in the price of its underlying instrument; in general, it does not require an initial net investment and will not be liquidated on a future date.

The Institution carries out two types of transactions with derivative financial instruments:

- For hedging purposes: its purpose is to hedge risks through use of financial instruments which manage exposure of certain risks that could affect comprehensive income (Net result or Other).
- For trading purposes: its purpose is other than hedging risk open positions by assuming its positions as player in the derivatives market.

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Derivatives, irrespective of their purpose, are recognized at fair value.

Financial assets or liabilities resulting from rights and obligations set forth in the IFDs are initially recognized at fair value. In general, the IFD value upon their contracting is zero (in the event of a SWAP IRS, registered at notional value in Memorandum Accounts) and recognized at such value, which is later modified by changes in fair value. Fair value includes the effects of all risks affecting the IFDs, such as market, liquidity and credit risks. Any payment made or received to have an IFD at fair value is also included.

The best evidence of fair value on an IFD at its initial recognition is normally the transaction price, that is, the fair value of the consideration received or delivered. If it is determined the initial fair value differs from the transaction price, such financial instrument is recognized at the fair value evidenced by a quoted price in the active market, for an identical asset or liability, or at the one determined based on a valuation technique using only information of observable markets.

The difference between the fair value and the transaction price is recorded in results for the year. In the event the IFD fair value is determined based on a valuation technique using non-observable information in the market, the difference is applied to the year's results during the life of the IFD.

After initial recognition, IFDs are valued at fair value by recognizing the difference between the previous carrying amount and the current fair value in the consolidated statement of comprehensive income under caption "Financial intermediation result", unless IFDs are used as hedging instruments. These valuation effects will have an unrealized nature and shall not be subject to capitalization nor distribution among shareholders until they are realized in cash or cash equivalents.

Transaction costs directly attributable to the IFD purchase are directly recognized in the year's results as incurred.

IFDs are recognized, either as a financial asset or as a financial liability, depending on whether their fair value (as a result of the rights and/or obligations they establish) corresponds to a debit balance or credit balance, respectively. Such debit or credit balances may be offset, in some cases, provided that the rules for offsetting financial assets and financial liabilities are fulfilled.

If the offsetting results in a debit balance, the difference is shown in assets under caption "Derivative financial instruments" of the consolidated statement of financial position; in the event of a credit balance, it is shown in liabilities under caption "Derivative financial instruments" of the consolidated statement of financial position, segregating derivatives for trading purposes and derivatives for hedging purposes.

Derivative financial instruments intended for trading

- Futures and forward contracts

Futures and forward contracts are those whereby an obligation to buy or sell a financial asset or the underlying item is established at some future date; the amount, quality and prices are pre-established in the trading agreement. The party agreeing to purchase assumes a long position in the agreement and the party agreeing to sell assumes a short position with respect to the same agreement.

Both futures and forwards are initially recognized as a financial asset or a financial liability at fair value, which presumably corresponds to the price agreed upon in the purchase agreement of the underlying asset, with the purpose of recognizing the right and the obligation of receiving and/or delivering the underlying asset, as well as the right and the obligation of receiving and /or delivering the cash equivalent to the underlying asset subject matter of the agreement.

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Futures are recognized at market value by registering the difference between market value and the agreed upon price under caption "Financial intermediation result".

In the case of forwards, the difference between the price agreed upon in the contract and the forward price, as well as the valuation effects, are recognized in the consolidated statement of comprehensive income under caption "Financial intermediation result".

- Swaps

Swaps are agreements between two parties whereby a bilateral obligation to exchange cash flows on future pre-established dates is laid down in relation to a face or reference value during a determined period.

The Institution recognizes initially in the consolidated statement of financial position, the assets and liabilities from the rights and obligations of the swaps at their fair value, which presumably corresponds to the agreed upon price, valuing at present value future cash flows to be received or to be delivered in accordance with the projection of future implicit rates to be applied, discounting them at the market interest rate on valuation date with the corresponding interest rate curves, considering for their presentation inputs provided by the Price Provider, as established by the Banking Commission.

The settlement of a swap may be made in cash or in kind, according to the terms thereof.

- Derivative financial instruments intended for hedging

Financial assets and liabilities that are designated and comply with the requirements to be designated as hedged items, as well as IFDs that are part of a hedging relationship are recognized according to the provisions regarding hedge accounting for recognition of the gain or loss of IFD hedging and the hedged item.

A hedging relationship qualifies for hedge accounting when the following conditions are met:

- Be aligned with the risk management strategy of the Institution;
- Covers only qualifying items and only uses qualifying hedging instruments;
- Be formally designated, identifying the items to be hedged and the hedging instruments;
- Complies with all the following effectiveness requirements:
 - There is an economic relationship between the hedged item and the hedging instrument;
 - The effect of the credit risk does not rule over changes in the value of such economic relationship;
 - The counterparties have the economic and operating capacity to comply with the agree upon commitments;
 - The hedge ratio reflects a balance that is consistent with the purpose of the hedging relationships;
 - It is formally documented since its designation as a hedging relationship.

Derivative financial instruments with hedging purpose are valued at market value and the effect of such valuation is recognized depending on the type of accounting hedge, according to the following:

- Fair value hedges

Represent a hedge for the exposure to changes in fair value of a recognized asset or liability, or of an unrecognized firm commitment, or of a component of any of the previous items, or an aggregate exposure which is attributable to one or more risks.

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The hedged item is valued according to the hedge risk by adjusting its carrying amount and the hedging IFD is valued at fair value; both effects are recognized in results for the year under caption "Financial intermediation result". If the hedged item is an IFCV, the effect of the hedging gain or loss from the hedged risk of the hedged item is recognized in results for the year.

The result from valuation of the IFD that is part of a hedging relationship is shown under the same caption in the consolidated statement of comprehensive income where the result from valuation of the hedged item attributable to the hedged risk is shown.

- Cash flow hedges

Represents a hedge for exposure to variability in cash flows attributable to a risk associated with a recognized asset or liability, a portfolio or a component thereof, or one or several transactions forecasted as highly probable or parts thereof, or an aggregate exposure.

The hedging IFD is valued at fair value. The portion of gain or loss of the hedging IFD that is effective in hedging is recorded in stockholders' equity under caption "Valuation of cash flow hedging derivatives", and the ineffective part of the gain or loss of the hedging IFD is recognized in the consolidated statement of comprehensive income under caption "Financial intermediation result".

The effective component of the hedging recognized in stockholders' equity associated with the hedged item is adjusted to be equal to the lesser amount (in absolute terms) between the cumulative gain or loss of the hedging IFD since inception thereof, and the cumulative change of the present value of hedged expected cash flows of the hedged item, since the inception of the hedge.

The gains or losses accumulated in OCI are subsequently recognized as follows:

- If the forecasted hedged transaction results in the recognition of a non-financial asset or a non-financial liability (or if the forecasted hedge transaction of a non-financial asset or a non-financial liability becomes a firm commitment at which a fair value hedge accounting is applicable), the cumulative amount in OCI is included directly as adjustment in the initial recognition of the non-financial asset or non-financial liability.
- For cash flow hedges other than the ones addressed above, the cumulative amount in other comprehensive income should be recycled to the caption of the year's result affected by the hedged item, in the same period or periods in which the future hedged cash flows affect the year's result; and if an amount recognized in other comprehensive income there is an unexpected loss to be recovered in the future, the corresponding amount is recycled immediately to the result of the year.

The Institution discontinues a hedging relationship only when it has stopped complying with the requirements to be recognized as such; this includes when the hedging IFD expires, is sold, terminated, or exercised, after considering any rebalance made to the hedging relationship. Discontinuation of the hedging relationship is applied prospectively as from the date on which the qualifying criteria thereof stop being met. Discontinuation of hedging accounting may affect, whereas the hedge relationship in its entirety or only a portion thereof, in which case the hedging accounting continues for the remaining of the hedging relationship.

If upon discontinuation of the fair value of a hedging relationship the hedged item still exists, it will be treated, as from the discontinuation date, according to the related NIF. If the hedging IFD keeps on existing, this is considered as a trading IFD.

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When the hedging relationship is discontinued for a hedged item which is a financial asset or liability valued at amortized cost, of which the fixed interest rate is hedged to transform it into a floating rate, the adjustment added to or subtracted from the value of the hedged item is amortized in results for the year.

Upon suspending the cash flow hedging accounting, the cumulative gain or loss corresponding to the effective portion of the hedging derivative instrument recognized in stockholders' equity as part of OCI during the period of time when such hedge was effective, remains in stockholders' equity until such time as the effects of the forecasted affect the year's results.

In the event the forecasted transaction is no longer likely to occur, the gain or loss recognized in stockholders' equity as part of other comprehensive income is immediately applied to results of the year.

When the cash flow hedge accounting is discontinued, the Institution recognizes the amount accumulated in OCI as follows:

- If it is yet expected that hedged cash flows occur, such amount remains in OCI until they occur;
- If the accumulated amount is a non-recoverable loss, it is applied immediately to results of the year; or
- If it is no longer likely that hedged cash flows occur, the amount accumulated in OCI is recycled to the year's results.

The result of offsetting the asset and liability position, either debit or credit, is shown separately from the primary position under caption "Derivative financial instruments" of the consolidated statement of financial position and accrued interest is recorded in the consolidated statement of comprehensive income under caption "Interest income" or "Interest expense".

The valuation effect of trading derivatives is shown in the consolidated statement of financial position and in the consolidated statement of comprehensive income under captions "Derivative financial instruments", in assets or liabilities, as applicable, and "Financial intermediation result", respectively.

The effective portion of valuation result of designated cash flow hedges is recognized in stockholders' equity under caption "Result from valuation of cash flow hedges", while the ineffective portion of the change in fair value is immediately recognized in results under caption "Financial intermediation result", and the counter-account with such effect is shown in the consolidated statement of financial position under caption "Derivative financial instruments". The gain or loss associated with the hedge of the forecasted transaction which has been recognized in stockholders' equity is reclassified to the consolidated statement of comprehensive income under the same caption where the result from valuation of the hedged item attributable to the hedged risk, in the same period during which the forecasted hedge cash flows affect results for the year.

If the cash flow hedging derivative expires, is exercised, terminated or the hedge does not comply with the requirements to be considered as such, the hedging designation is revoked, while the valuation of the cash flow hedging derivative in stockholders' equity remains under such caption, and when the forecasted transaction occurs, it is recognized in results under the same caption where the result from valuation attributable to the hedged risk is shown.

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The gain or loss resulting from valuing the fair value of a hedging derivative is recognized in the consolidated statement financial of position under caption “Valuation adjustments from hedging of financial assets” and in the consolidated statement of comprehensive income under captions “Interest income” and “Financial intermediation result”, given they correspond to hedging of interest rates of loan portfolio and investments in financial instruments for collecting or selling, respectively. The result from valuation of the item attributable to the hedged risk is recognized in the consolidated statement of financial position under caption “Valuation adjustments from hedging of financial assets” and recognized in results for the year under “Interest income”, in the case of loan portfolio, while for investments in financial instruments for collecting or selling are recognized under caption “Financial intermediation result”.

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

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

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

Collateral pledged in securities are recorded as securities restricted by guarantees, and collateral received in securities from derivative transactions are recorded in memorandum accounts.

g. Offsetting clearing accounts

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

The balances of debit and credit clearing accounts are offset provided 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, simultaneously, the liability.

Clearing accounts are shown under caption “Other account receivables, net” or “Creditors on settlement of transactions”, as appropriate.

h. Loan portfolio

- Business model

The business model refers to the way the Institution administers or manages the loan portfolio to generate cash flows. That is, the business model determines whether cash flows will come from obtaining contractual cash flows, to the sale of the loan portfolio, or both. The Institution’s Internal Credit Committee approved the “Business Model, Classification and Measuring of Financial Assets Receivable of the Institution’s Loan Portfolio”. The approved model was to hold the portfolio up to maturity.

To determine whether the contractual cash flows of the loan portfolio are to be realized through their collection, the frequency, value and timeliness of loan portfolio sales in prior periods, the reasons of such sales and the expectations about the activity of future sales are factors to be entertained.

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Stand-alone sales do not determine the business model; instead, information on past sales and expectations about future sales provide evidence related to the form in which the Institution's purpose to administer or manage the loan portfolio and, specifically, how cash flows are realized. The Institution considers information on past sales within the context of the reasons of such sales and conditions that existed at that time in comparison to current conditions.

The business model can be to hold the loan portfolio to collect its cash flows, even if the Institution sells the portfolio when there is an increase in its credit risk. Regardless of its frequency and value, sales stemming from an increase in the credit risk of the loan portfolio are not incongruent with a business model which purpose is to hold it to collect contractual cash flows, since the credit risk quality is relevant as to the capacity of the Institution to collect contractual cash flows. Credit risks management activities that intend to minimize potential credit risks due to credit impairment as an integral part of the business model.

The portfolios and products comprising the loan portfolio are assessed by the Institution to define its business model and determine whether they comply with the assumption that the contract's cash flows correspond solely to principal and interest payments, or otherwise, should be valued at fair value based on their characteristics. The loans or credit portfolios previously assessed, which contractual terms are modified, as well as the new products, are subject to the business model tests.

The Institution evaluates periodically the characteristics of its business model to classify the loan portfolio based on the purpose thereof.

To confirm the above, the Institution performed an analysis of the cash flows received through a "SPPI test" (Single Payments of Principal and Interest), which is performed to determine whether a credit or loan portfolio, complies with the assumption that contractual cash flows correspond solely to payments of principal and interest and should be valued at amortized cost, or otherwise, given their characteristics should be valued at fair value. Upon conclusion of said analysis it was determined that Nafin's loan portfolio has a business model focused in holding the portfolio up to maturity, and contractual cash flows correspond to the payment of principal and interest, thus, they shall be valued accounting-wise, at amortized cost.

- Classification of loan portfolio

The Institution classifies its loan portfolio under the following captions:

- Commercial loans, granted to business entities and intended for their commercial or financial activity including those granted to financial institutions other than interbank loans with maturities of less than 3 business days, loans for financial factoring transactions, discount and assignment of credit rights, loans granted to trustees acting under trusts.

Likewise, these include credits granted to the Federal Government, states, municipalities and their decentralized bodies, and loans to productive state entities, together with those having an express guarantee of the Federation, registered with the Ministry of Finance and Public Credit (SHCP for the acronym in Spanish) and Banxico, as well as those expressly guaranteed by states, municipalities and their decentralized bodies, duly registered before the Registro Público Único (sole public registry) referred to by the Law of Financial Discipline of States and Municipalities.

Represents the balance of the total or partial withdrawal of credit facilities granted to borrowers, plus accrued and un-collected interest, less any interest collected in advance. The preventive allowance for credit risks is presented deducting the balances of the loan portfolio. Unused lines of credit are accounted for in memorandum accounts, under caption "Loan commitments". The amount that is withdrawn by the borrower is considered in the loan portfolio in accordance with the corresponding portfolio category.

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- Housing and consumer loans. - These are secured liquidity loans for housing and consumption (personal loans) granted to former employees in local currency, as well as interest earned and having a remaining balance to be settled at market term and rate.

Initial recognition

The Institution quantifies the transaction price corresponding to the net financial amount, which results from adding or subtracting to the original loan amount, the financed insurance, transaction costs, fees, interest and other items collected in advance. Such transactions price corresponds to the fair value of the loan portfolio at initial recognition and is the basis for applying the effective interest method with the effective interest rate, which is the basis for calculation of the amortized cost of the loan portfolio for its subsequent recognition.

The balance of the loan portfolio by the amount granted to the debtor and it is recorded no considering the costs of the transaction, likewise the amount collected in advance, indicated in the paragraph above, which are recognized as a deferred debit or credit, as applicable and are amortized in the result of the period in the term of the credit, in accordance with the amortized cost.

Transaction costs include among other, fees and commissions paid to agents, advisors and intermediaries, appraisals, research expenses, as well as debtor's credit assessment, assessment and recognition of guarantees, negotiations of the credit terms, preparation and process of the credit documentation and transaction closing or cancellation. On the other hand, transaction costs do not include premiums or discounts, which are part of the fair value of the loan portfolio at the time of the transaction.

The amount of the transaction costs and revenue associated with the credit granting which are part of the effective interest is shown net in the consolidated statement of financial position under a separate caption, affecting the total loan portfolio.

Any other expense not related to the credit granting, such as those related to promotion, advertising, potential customers, management of existing credits (follow-up, control, recoveries, etc.) and other auxiliary activities related to the establishment and monitoring of credit policies, are recognized directly in results for the year on an accrual basis under the caption corresponding to the nature of the expense.

Collected commissions and transaction costs originated from a credit facility are recognized at that time as a credit or deferred charge, which is amortized against results for the year for the period corresponding to the term granted in the credit facility. In the event the credit facility is canceled, the outstanding balance is recognized directly in results for the year under the caption corresponding to the date of cancellation of the credit facility.

- Subsequent recognition

At subsequent recognition, the loan portfolio is valued at amortized cost, which includes increases due to accrued interest, reductions for amortizations of transaction costs and items collected in advance, as well as reductions and for principal and interest collections and for the preventive allowance for credit risks.

In the event of credit facilities granted by the Institution, in which only part of the authorized amount has been exercised, the unused portion thereof remains recognized in memorandum accounts.

Commissions that are recognized after the granting of the credit are those generated as part of maintenance of such credits, as well as those charges for credits that have not been placed, are recorded in results of the year upon their accrual.

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- **Reclassifications**

The Institution reclassifies the loan portfolio only if its business model is modified. These changes are the result of external and internal changes that are significant for its operations and may be proved before third parties.

Reclassifications are communicated in writing to the Banking Commission within 10 business days following the determination, exposing in detail the change to the business model that explains them. Reclassification is made prospectively and does not modify the previously recognized profits and losses.

In years ended December 31, 2023 and 2022, there were no changes or modifications to the loan portfolio business model.

Categorization of the loan portfolio by credit risk level

Portfolio with credit risk Stage 1

The following loans are considered portfolio with credit risk Stage 1:

- Commercial loans: with 30 or less days past-due.
- Consumer loans: when the number of days past-due, calculated as the total past due billings to rating date, is less or equal to 1.
- Housing loans: when the number of days past-due, calculated as the total past-due billings to the rating date, is less than or equal to 1.

Loan portfolio with credit risk Stage 2

The following loans are considered portfolio with credit risk Stage 2:

- Commercial loans: with more than 30 days and less than 90 days past-due.
- Consumer loans: when the number of days past-due, calculated as the total of past-due billings to the rating date, are greater than 1 but less than or equal to 3.
- Housing loans: when the number of days past-due, calculated as the total of past-due billings to the rating date, is greater than 3.

Loan portfolio with credit risk Stage 3

- Commercial loans: with 90 or more days past-due.
- Consumer loan: when the number of days past-due, calculated as the total past-due billings to the rating date is greater than 3.
- Housing loans: when the number of days past-due, calculated as the total past-due billings to the rating date, is greater than 3.

The outstanding balance according to the payment terms set forth in the loan agreement should be recognized as loan portfolio with credit risk Stage 3 when:

1. It is known that borrower has filed for bankruptcy under the Bankruptcy Law. Loans thrown into bankruptcy that continue making payments in terms of the Bankruptcy Law are classified as portfolio with a credit risk in Stage 3, if assumptions provided for in the following numeral 2 are met. Notwithstanding the provisions in this item, loans that continue receiving payments pursuant to Section VIII of Article 3 of the Bankruptcy Law, as well as loans granted under Article 75, in relation to Sections II and III of Article 224 of the referenced law, will be transferred to the loan portfolio with credit risk Stage 3, if assumptions provided or in the following numeral 2 are met.

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2. Amortizations of consumer loans and housing loans, referred to in Exhibit 16-A, "Procedure to calculate the number of past-due billings in rating non-revolving consumer and housing loan portfolios" as stated in the General Rules Applicable to Credit Institutions (Withdrawals), have been partially paid, provided such debts correspond to:
- a) Loans with a single payment of principal and interest at maturity, which are more than 30 calendar days past-due for principal and interest;
 - b) Loans with a single payment of principal at maturity and periodic interest payments, which are 90 or more calendar days past-due for their respective interest payment, or otherwise 30 or more calendar days past-due on the principal amount.
 - c) Loans with periodic partial payments of principal and interest, which are 90 or more calendar days past-due for principal and interest.

For purposes of the provision in this numeral, the payment made in each billing period will be used to settle first the oldest overdue billing, and then the one following, if any, and so forth until the most recent billing.

Loans with credit risk Stages 2 and 3 which are fully settled or comply with the sustained payment, are taken back to the portfolio with credit risk Stage 1; situation evidenced by the payment of total due amount for principal and interest with no delays in 3 consecutive amortizations (amortizations lower than or equal to 60 days), the payment of 2 amortizations (periods between 61 and 90 calendar days) and in amortizations greater than 90 days, the payment of one amortization. In loans with a single payment of principal at maturity, the sustained payment is evidenced by covering at least 20% of the loan original amount upon the restructuring or renewal in a term of 90 days and when such term has elapsed.

3. Loan amortizations not considered in the previous numeral, which amortizations have not been fully settled in the terms originally agree upon, provided debits correspond to:
- a) Loans with a single payment of principal and interest at maturity which are 30 or more natural days past-due for principal and interest;
 - b) Loans with a single payment at maturity, and periodic interest payments, which are 90 days or more calendar days past-due for their respective interest payment, or otherwise 30 or more calendar days past-due on the principal;
 - c) Loans with periodic partial payments of principal and interest, which are 90 or more days past-due for principal and interest.
4. Immediately redeemable notes will be reported as portfolio with credit risk Stage 3 at the time they have not been collected.

Loan portfolio should be recognized with credit risk Stage 3, when the entities have any element to determine they should be migrated from Stage 1 or Stage 2.

In relation to maturity terms referred to in numerals 2 and 3, monthly periods may be used, regardless of the number of days in each calendar month, according to the following equivalences: one calendar month, 30 days; three calendar months, 90 days.

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Likewise, if the set term expires on a nonbusiness day, said terms will be understood ended on the following business day.

In the case of acquisitions of loan portfolios, for the purpose of determining days past-due and the respective transfer to a portfolio with credit risk Stage 3, consideration must be given to all instances of noncompliance by the borrower since loan origination.

Loans with credit risk Stage 3 or Stage 2 for which outstanding balances are fully settled (principal and interest, among other) or which, in the case of restructured loans, comply with the sustained loan payment, shall be transferred back to the portfolio with credit risk Stage 1.

- **Restructuring and renegotiations**

For restructurings made by the Institution of loans with credit risks Stages 1 and 2, or which through a renewal are partially settled, the gain or loss on the renegotiation is determined through the difference between the carrying amount and the discounted cash flows at the original effective interest rate; the result is recorded in the consolidated statement of comprehensive income as a deferred charge or credit against the gain or loss on the loan portfolio renegotiation.

The amount of the partially restructured or renewed is the basis to apply the original effective interest rate, which is only adjusted, if applicable, to include the transaction costs, fees, and other items collected in advance pending amortization, as well as the those originated in the renegotiation are amortized during the new loan term based on the effective interest rate.

If the Institution renews a loan, it is considered there is a new loan, therefore, the previous loan, in the event of total renewal, is written off.

Loans with credit risk Stage 2 or Stage 3 which are restructured or renewed are not classified to a Stage with lower risk as a result of such restructuring or renewal until there is evidence of sustained payment.

Loans with single payment of principal at maturity which are restructured during their term or renewed at any time, are transferred the immediately following category with greater risk until they show sustained payment. Withdrawn credit facilities, which are restructured or renewed at any time, are transferred to the immediately following category with greater risk, except when there are elements that justify the debtor's repayment capability, have repaid in full interest and payments due on the restructuring or renewal date.

If withdrawals made under the credit facility, when they are restructured or renewed regardless of the corresponding credit facility, represent 25% of the total withdrawn balance of the credit facility to the restructuring or renewal date, the total withdrawn balance, as well as the subsequent withdrawals, are transferred to a classification with greater risk. The total balance withdrawn from a credit facility is transferred to a classification with lower credit risk if there is evidence of the sustained payment of the withdrawals that originated such transfer, and there has been compliance with all obligations due of the total credit facility on the assessment date.

Loans with credit risk Stages 1 and 2, other than the mentioned above which are restructured or renewed without having at least 80% of the original loa term elapsed, will remain in the same category, only if total accrued interest and the original principal loan amount which should have been covered are paid.

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Loans with credit risk Stages 1 and 2 other than the above mentioned which are restructured or renewed during the course of the final 20% of the original term of the loan will be transferred to the immediately following category with greater risk, except if the borrower has fully paid the total interest accrued on the restructuring or renewal date, covered the total original amount of the loan which at the date of renewal or restructuring should have been paid and paid 60% of the original loan amount.

Loans with credit risk Stages 1 and 2 which are restructured or renewed more than once, are transferred to a portfolio with credit risk Stage 3, except when, in addition to the conditions set out in the previous paragraphs, the Institution has elements that evidence the debtor's repayment capability.

The Institution recognizes the outstanding balance pending amortization corresponding to the gain or loss on renegotiation in results for the year when the loan is transferred to a portfolio with a credit risk Stage 3.

If in a restructure or renewal several loans granted to the same borrower are consolidated, and it is concluded that one or more of such loans should be transferred to a portfolio with a greater credit risk as a result of such restructuring or renewal the total balance of the consolidated loan is transferred to the category corresponding to the loan subject to consolidation with a greater credit risk.

Loans classified in Stage 2 due to a restructuring or renewal are evaluated periodically to determine whether there is an increase in their risk originating a transfer to Stage 3.

Restructurings which to the transaction date show compliance with the payment in the total amount due for principal and interest are not transferred to a category with greater credit risk when they only modify one of the following conditions: extension or replacement of guarantees for others of better quality; improvement to the interest rate; new currency or unit of account; the change in the payment date does not involve exceeding or modifying its periodicity.

- **Loan sustained payment**

A loan sustained payment is evidenced when the borrower makes the payment of the total due amount of principal and interest without delay, for at least three consecutive amortizations of the loan payment scheme, for amortizations that cover periods shorter than or equal to 60 days, or the payment of two amortizations in the event of loans with periods between 61 and 90 calendar days, and in the event of loans with amortizations covering periods longer than 90 calendar days, the payment of one amortization.

When the amortization periods agreed in the restructuring or renewal are not homogeneous, for purposes of evidencing the sustained payment, it is required to consider the number of periods representing the longest term.

For restructurings modifying the periodicity of payment to shorter periods, it is required to consider the number of amortizations of the original loan scheme.

In the case of consolidated loans, if two or more loans originated the transfer to a portfolio with credit risk Stage 2 or State 3, for the purpose of determining the required amortizations, the original repayment scheme should be considered, where such amortizations should be equal to the longest term.

In any case, to evidence there is a sustained payment, the entity should make available to the CNBV evidence that the borrower has repayment capability upon carrying out the restructuring or renewal to face the new loan conditions.

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The minimum elements to be considered for the purpose of the previous paragraph are as follows: the intrinsic borrower's probability of default, the guarantees granted to the restructured or renewed loan, the order of preference for payment before other creditors and the borrower's liquidity in the face of the new financing structure.

For loans with single payment of principal at maturity, whether the interest payment is periodic or upon maturity, it is considered there is sustained payment of the loan upon occurrence of the following assumptions:

- a) the borrower has covered at least 20% of the original loan amount upon restructuring or renewal, or otherwise,
- b) the amount of accrued interests according to the repayment scheme for restructuring or renewal corresponding to a term of 90 days has been covered and at least such term has elapsed.

Loans which are restructured or renewed more than once, which have been agreed with a sole payment of principal at maturity, regardless of whether interest payment is periodic or at maturity, will evidence loan sustained payment when:

- a) the borrower covers at least 20% of the outstanding principal to the date of the new restructuring or renewal;
- b) the amount of accrued interests according to the new repayment scheme for restructuring or renewal corresponding to a term of 90 days has been covered and at least such term has elapsed, and
- c) the entity has elements to prove the debtor's repayment capability. For commercial loans, such elements should be duly documented and integrated into the loan's file.

Prepayment of amortizations of the restructured or renewed loans, other than those with single payment of principal at maturity, regardless of whether interest payment is periodic or at maturity, will not be considered sustained payment. That is the case of amortizations of restructured or renewed loans which are paid without having the calendar days equivalent to the required period elapsed.

In any case, loans transferred to a category of greater credit risk as a result of a restructuring or renewal, should remain a minimum of three months in such stage to evidence sustained payment and, thus, be transferred to the immediately following stage with lower credit risk, except for restructured or renewed loans granted for a term shorter than or equal to 6 months and which are not restructured or renewed consecutively for the same term. The foregoing shall not be applicable to loans with payment of principal at maturity, regardless of whether interest payment is periodic or at maturity.

- **Discontinuation of interest accrual**

Interest accrued on loan transactions should be discontinued when the outstanding balance of the loan is considered to be with credit risk Stage 3. Likewise, it is required to consider the balance pending amortization of the transaction costs, as well as of the items collected in advance and, if any, the effect of the profit or loss on the renegotiation pending amortization against the year's results.

For loans contractually capitalizing interest to the debt amount, the discontinuation of interest accrual established in the paragraph above will be applied.

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During the period loans are held in a portfolio with credit risk Stage 3, interest earned will be recorded in memorandum accounts. If such interest or financial income is collected, it will be directly recognized in the year's results under the caption "Interest income", cancelling, in the case of a financial lease, financial factoring transactions, discount or assignment of credit rights, the corresponding financial income to be earned.

In the event interest recorded in memorandum accounts pursuant to the previous paragraph are written off or charged off, these should be canceled in the memorandum accounts without affecting the preventive allowance for credit risks.

"Special accounting criteria provided by the Banking Commission applicable to loan institutions, for those accredited with domicile or source of payment situated in zones declared in emergency status" affected by Hurricane Otis.

Based on Article 175 first paragraph of "General Rules Applicable to Loan Institutions" and as a consequence of the damages caused by hydro-meteorological phenomena severely affecting the State of Guerrero as a result of which the Secretary of Security and Public Safety issued on October 26, 2023, the "Accord through which it is Established an Emergency Situation", being Acapulco de Juárez the municipality with initial attention, the Banking Commission determined to temporarily release special accounting criteria through Official Letter P-307/203 dated October 2023.

The Banking Commission released special accounting criteria in respect to consumption, housing and commercial loans for borrowers having their domicile or the loans which source of payment is situated in affected zones and that were accounting wise classified as portfolio with credit risk Stage 1 or Stage 2 on October 2023, for the purpose of being renewed or restructured remaining in the same credit risk category and not to be considered a restructured loans, in accordance with Criteria B-6, "Loan Portfolio".

The benefit stated above, among other aspects, allows that the new maturity term which, as the case may be, is granted to the borrower, does not exceed more than 6 months the original maturity date of the transactions and the corresponding processes of such restructuring or renewal conclude no later than April 30, 2024.

To this effect, Nafin implemented the "Emergent Support Scheme for Companies affected by Hurricane Otis in the State of Guerrero (Rescheduling)" (the Scheme), for the purpose that Nafin borrowers subject to this benefit may access a rescheduling scheme of amortizations, as a result of the impact caused by Hurricane Otis in the State of Guerrero, and through this scheme such companies are able to maintain jobs and carry out the most essential expenses to continue with their operations.

The Scheme was issued considering the possibility to apply the "General Rules Applicable to Loan Institutions (Single Banks Circular Letter)", Schedule 33, Criteria B-6, *Loan Portfolio*, as well as special accounting criteria issued by the Banking Commission, having as instrumentation deadline April 30, 2024.

As of December 31, 2023, no eligible transactions have been instrumented eligible for the authorized Scheme.

i. Preventive allowance for credit risks

The preventive allowance for credit risks is recorded, which, based on Management's best estimate is sufficient to cover any loss which could arise both from loans included in its loan portfolio, and from other credit risks of guarantees issued and irrevocable loan commitments.

The amount of the preventive allowance for credit risks is determined based on the different methodologies set out by the CNBV for each type of credit and credit risk level, as well as additional estimates required in various regulations and bodies of laws recognized by the CNBV and should be recognized in results of the corresponding period.

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Loan portfolio rating is based on an expected loss model which considers in its evaluation, the loan stage (1, 2 or 3), the economic sector to which it belongs, the probability of default, the loss given default and the exposure at default, while for the consumer and housing portfolio, rating was made according to the methodology for rating consumer and housing loan portfolios, referred to in Subsection A of the First and Second Sections of Chapter V, Second Title, of the General Provisions Applicable to Credit Institutions published through a modifying resolution on October 25, 2010 and its subsequent amendments.

Identification of the loan portfolio impairment level should take place before the default, considering, among other factors, significant increases in credit risk indicators, deterioration in the external rating of an instrument or borrower, significant risk increases in other instruments of the same borrower, delinquency information, significant deterioration in market indicators, significant changes in the value of guarantees or in the operating results of the borrower, even those of the economic environment.

An estimate of expected losses should be made by considering the 3 mentioned stages, depending on the level of credit impairment of assets, as follows:

- **Stage 1**, is the stage that incorporates financial instruments whose credit risk has not increased significantly since their initial recognition, and the estimate should be created for a 12-month period for loans which credit risk has not increased significantly since their initial recognition until the date of the financial statements and which do not meet the assumptions to be considered in Stages 2 or 3.
- **Stage 2**, which incorporates the instruments in which a significant risk is presented in the credit risk since their initial recognition, for loans which have shown a significant increase in the credit risk since their initial recognition until the date of the financial statements, according to the provisions of the models to calculate the preventive allowance for credit risks.
- **Stage 3**, which encompasses instruments in which there is objective evidence of impairment and for which, both in Stage 2 and in Stage 3, it is established that the Credit Institutions should create allowances for loan losses for the remaining term to maturity for loans with credit impairment originated for occurrence of one or more events that have a negatively impact on the future cash flows of such loans.

The amount of the allowances for loan losses on each loan shall be the result of applying the following formula:

$$R_i = P_i \times S_i \times E_i$$

Where:

R _i	Amount of the allowances for loan losses to be set aside of the i-th loan.
P _i	Probability of default of the i-th loan
S _i	Loss given default on the i-th loan
E _i	Exposure at default of the i-th loan

E_i should be computed on a monthly basis and, in the case of P_i and S_i, at least quarterly.

Commercial portfolio. - The allowances for the commercial portfolio are based on the individual assessments of the credit risk of borrowers and their classification in accordance with the General Provisions applicable to the rating methodology of the Credit Institutions loan portfolio provided by the Banking Commission. Commercial loans shall be subject to a credit rating without including those loans with guarantee from Entities of the Federal Public Administration under direct budgetary control, productive State companies or those indicated in section VI of Article 112 of the Provisions, in which the allowance percentage shall be equal to 0.5%.

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Preventive allowances for credit risk for commercial portfolio are classified based on the risk grades and the percentages on the following table:

Risk grade	Percentage range for allowances	
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 45.00%	

- Methodology for the rating of commercial portfolio

The commercial portfolio rating exercise based on the expected loss model considered the following:

1. The commercial portfolio was classified according to the Provisions, as applicable to the Institution, in accordance with the following:

- i. States and municipalities (not applicable to the Institution).
- ii. Projects with own source of payment (Exhibit 19).
- iii. Trustees who act on behalf of trusts, not included in the previous subsection, as well as credit schemes commonly known as “structured” (not applicable to the Institution).
- iv. Financial entities (Exhibit 20).
- v. Business entities not included in the previous subsections and individuals with business activities:
 - Annual net revenues or net sales < 14 million UDIs (Exhibit 21).
 - “Non overdue borrowers” in the last 12 months.
 - “Overdue borrowers” at least with one day overdue in the last 12 months.
 - Annual net revenues or net sales ≥ 14 million UDIs (Exhibit 22).
 - Small companies: 14 million UDIs ≥ Annual net sales < 54 million UDIs.
 - Companies: 54 million UDIs ≥ Annual net sales < 216 million UDIs.
 - Large companies: Annual net sales ≥ 216 million UDIs.

Likewise, the commercial portfolio is classified in stages according to the following:

- Stage 1. For loans with 30 or less days past due.
- Stage 2. For loans with more than 30 days past-due and less than 90 days past-due, o which comply with any of the criteria described in Stages 1 or 3.
- Stage 3. For loans with 90 or more days past-due o when the loan is in Stage 3, according to the terms set out in the Accounting Criterion B-6, *Commercial portfolio*.

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- Methodology for rating of consumer and housing portfolio

Rating of the consumer and housing portfolios is determined based on the result determined by the impact of the probability of default in the loss given default associated to the value and nature of the loan guarantees. The origin of these portfolios arises from loans granted to employees, once their labor relationship with the Institution is terminated, and which according to the internal regulations of the CNBV are part of the loan portfolio.

- Additional reserves

To determine additional reserves reported to the Banking Commission which the Institution had to set up in years 2023 and 2022, where the methodology consists of estimating the amount of the additional reserves depending on the expected threshold of Stage 3 of overdue portfolio for years 2023 and 2022. The threshold would be determined by the portfolio's behavior. Likewise, a comparison was prepared between the Institution's overdue portfolio in Stage 3 and the Commercial Bank's average overdue portfolio in Stage 3, with the assumption that the Institution's overdue portfolio in Stage 3, would tend to the bank average and will reach a percentage similar to that of the Commercial Banks in the short term.

- Accounting records

In light of the above, the Institution calculates the amount of the preventive allowance for credit risks, which is recorded in the corresponding year's results; surplus in the preventive allowance for credit risks is canceled against the year's results, affecting the same item that gave it origin, that is, the one of the preventive allowance for credit risks.

- Impaired loan portfolio

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 discount was authorized at the end of the agreed-upon term.

- Additional identified reserves

Additional reserves are established for those loans, which in Management's opinion, may be impaired in the future given the individual 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.

j. Other accounts receivable

Other accounts receivable are initially recognized when a right generated from a transaction arises, that is, when these are accrued at the amount for which there is a collection right, which in general is their nominal value. Subsequently, they are valued based on the amount for which there is a collection right, which in general is their nominal value pending collection.

Loans to officers and employees and the accounts receivable related to debts whose maturity is agreed from origin to a more than 90 calendar day term are assessed by Management's to determine the estimated recoverable amount and as required, to create the corresponding allowance. The balances of other debit items are recorded into the year's results 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 recoverable balances for creditable value-added tax.

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 non-recoverability is recorded for the total amount.

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k. Foreclosed assets or assets received in lieu of payment

Foreclosed assets are recorded on the date of 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 is formalized, or that on which the transfer of title to the asset is formally executed.

The value recognition of foreclosed assets shall be:

- a) the lower of the gross carrying amount of the asset originating the foreclosure, without deducting the allowance for credit risks known to this date, and the net realization value of assets received when the intention of the Institution is to sell such assets to recuperate the amount receivable; or
- b) the lower between the gross carrying amount of the asset originating the foreclosure or the fair value of the received asset when the intention of the Institution is to use the foreclosed asset for its operations.

When the net value of the assets originating the foreclosure exceeds the value of the foreclosed asset, the loss is recognized in results for the year, under caption "Other operating income (loss)"; otherwise, the value of the foreclosed asset is adjusted to the net value of the asset.

At the time of recognizing a foreclosed asset, the value of the asset originating the foreclosure and the allowance created as that date, are accounting wise derecognized, affecting the credit allowance in the statement of comprehensive income.

Foreclosed assets are valued according to the type of assets they represent, recording said valuation against results of the year under caption "Other operating income (loss)". The Institution's policy referred to foreclosed assets is to recognize accounting wise an estimate (loss) for the full amount of the foreclosed value.

Foreclosed assets pledged for sale are recognized as restricted at the carrying amount; collections received on account of the asset are recorded as a liability; on the date of the sale a gain or loss is recognized in results under caption "Other operating income (loss)".

l. Property, furniture and equipment

Property, furniture and equipment are recorded at acquisition cost. Balances of acquisitions made before December 31, 2007 were adjusted using factors based on the UDI value from the date of acquisition through that date.

Depreciation is calculated using the straight-line method, based on the useful lives of the corresponding assets estimated by the Institution's Management. Depreciation amount of property, furniture and equipment is determined by subtracting the residual value and, as applicable, the cumulative impairment losses from the acquisition cost. The Institution evaluates periodically the residual values of property, furniture, and equipment to determine amounts to be depreciated.

The Institution evaluates periodically the net carrying amount of property, furniture, and equipment, to determine whether there is an indication that these values exceed their recoverable amount. The recoverable amount is the higher of the net sales price and the value in use. If it is determined that the net carrying amounts exceed their recoverable amount, the Institution recognizes the impairment by subtracting it from the year's results.

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m. Permanent investments

Permanent investments are initially recognized on the basis of invested amount, contributed or of acquisition. Subsequently, said investments are valued by the equity method, which consists of adjusting the value of the investment, contribution or of acquisition of shares, by the proportional part of comprehensive income and the distribution of earnings from capital reimbursements subsequent to date of acquisition. Losses in associated companies, not resulting from reductions in the equity percentage but as a consequence of movements of other owners, are recognized in the corresponding proportion in the permanent investment against results in the year of occurrence.

The Institution's participation in the result of associated companies is shown separately in the consolidated statement of comprehensive income.

The other permanent investments where there is no control, joint control, or significant influence are classified as other investments, which are initially recognized and are valued at their acquisition cost. If there are dividends from such investments, these are recognized in results under the caption "Other operating income (expenses)", except if they come from profits on acquisition of prior periods, in which case, these are subtracted from the permanent investment.

n. Advance payments

Advance payments represent those disbursements made by the Institution, in which the benefits and risks inherent to the goods to be acquired or to the services to be received have not yet been transferred. Advance payments are recorded at their cost and are shown in the consolidated statement of financial position under the caption "Advance payments and other assets". Once the goods and/or services have been received, these are recognized as an asset or expense in the consolidated statement of comprehensive income for the period, according to their respective nature.

This caption includes mainly expenses and commissions paid in advance, as well as guarantee deposits, which are recognized as an asset for the amount paid when they are made, provided there is an estimate of the future economic benefits for the Institution. In the presence of any sign of impairment of the asset value, the potential impairment loss is determined and, if the recovery value is lower than the net carrying amount, the asset value is reduced, and the impairment loss is recognized in the year's results.

The other assets include the assets for employee benefits and deferred employee profit-sharing.

o. Income tax

Income taxes payable for the year are determined according to the tax provisions in effect.

Deferred income taxes are accounted for under the asset-liability method, which compares book and tax values. Deferred income taxes (assets and liabilities) are recognized for the future tax consequences attributable to temporary differences between the values set forth in the financial statement for the existing assets and liabilities and their respective tax bases, and in the case of income tax, for operating loss carryforwards. Deferred income tax assets and liabilities are calculated based on the statutory rates set forth by the relevant law, which are to be applied to the taxable income in the years for which it is estimated that the temporary differences will be reversed. The effect of changes in the tax rates applicable to deferred income taxes and are shown in results for the year in which such changes are approved.

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The deferred income tax asset is periodically assessed creating, where appropriate, the valuation allowance for those temporary differences for which there might be an uncertain recovery.

Income taxes are presented and classified in results for the year, except those that originate from a transaction that is recognized in other comprehensive income (OCI) or directly in a caption under stockholders' equity.

p. Deposit funding

Deposit funding is presented broken down in the following concepts:

- Time deposits; and
- debt securities issued.

Time deposits include, among others, certificates of deposit settled on pre-determined days and promissory notes with return payable at maturity. Debt securities issued include, among others, bank bonds and stock certificates.

Liabilities from deposit funding are initially recognized by applying the following steps:

- i. at transaction price, transaction costs are added or subtracted, as well as other items paid in advance, such as commissions and interest;
- ii. the future value of the estimated cash flows to be paid for contractual principal and interest is determined during the remaining term of the liability or for a shorter term, if there is a probability of prepayment or other circumstance that would require using a shorter term;
- iii. the effective interest rate of the liability is calculated; it is determined considering the relationship between the amount determined in the two previous subsections.
- iv. the amount determined in subsection (i) is the fair value of the liability at which it is initially recognized; this amount is the basis for applying the effective interest method with the effective interest rate resulting from step (iii); that is, it is the basis for calculation of the liability amortized cost at the subsequent recognition.

Upon calculating the effective interest rate, the Institution estimates the expected cash flows considering all contractual terms of the liability (such as prepayment, extension, early repayment and other similar options). The calculation includes all commissions and other charges paid or received among the parties of the agreement which are part of the effective interest rate, such as interest, commissions and other items paid in advance, as well as the transaction costs and all other premiums or discounts.

Transaction costs include, among others, fees and commissions paid to agents, advisors and intermediaries, duties paid to regulatory authorities and security markets, bonds or collateral payments, as well as transfer taxes of the financial instrument. These do not include premiums or discounts, which are part of the fair value of the financial instrument at the time of the transaction.

Those liabilities from deposit funding denominated in foreign currencies are recognized in the corresponding currency and translated with the exchange rate at date of transaction. At the closing of the year, these liabilities are translated at the exchange rate in force at the date of the statement of financial position. Changes in exchange rates are recognized in results of the year when they occur.

After initial recognition, liabilities from deposit funding are valued at their amortized cost, which includes, among others, the increase due to accrued effective interest and reductions due to principal and interest payments and, if any, the effect of any forgiveness granted in relation to the amount to be paid. The effective interest is recognized as an "Interest expense" in the year's on an accrual basis.

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The Institution derecognizes a liability from deposit funding (or part thereof) from the consolidated statement of financial position only when it is extinguished, as the obligation has been complied with, that is, when it is transferred, settled or expired.

Interest is charged to expense on an accrual basis under "Interest expense". For instruments sold at a value different from their nominal value, the difference between the instrument's nominal value and the amount effectively received therefrom is recognized as a deferred charge or credit and amortized on a straight-line basis over the term of the respective instrument.

When a financial instrument payable bears an interest rate periodically modified, the effective interest rate is determined for each period. In such event, it would be necessary to determine the effective interest rate for the remaining life of the loan, considering the unamortized transaction costs. If there are periodic payments of principal amount, an amortization of transaction costs in straight-line is not appropriate. However, if changes in rates are not relevant, it will not be necessary to change the effective interest rate.

q. 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 due to past events.

r. Interbank loans and from other agencies

This caption comprises short and long-term immediately due and payable loans from domestic and foreign banks, which are recorded based on the contractual value of the obligation. Interest is charged to expense on an accrual basis under "Interest expense".

Those interbank loans received by the Institution and agreed for a term shorter than or equal to 3 business days are presented as immediately due and payable, while those for terms longer than 3 business days are grouped as short and/or long-term in the consolidated statement of financial position.

Those interbank loans denominated in foreign currencies are recognized in the corresponding currency and translated at the historical exchange rate in force at the date of the loan transaction. At the closing of the year, those liabilities are translated at the exchange rate of the statement of financial position. Changes in rates of exchange are recognized in results in the year in which they occur.

After initial recognition, interbank loans are valued at their amortized cost, which includes, among others, the increase due to accrued effective interest and reductions due to principal and interest payments and, if any, the effect of any forgiveness granted in relation to the amount to be paid. The effective interest is recognized as an "Interest expense" in results on an accrual basis.

s. Employee benefits

Employee benefits granted by the Institution are all kind of compensations accrued earned in favor thereof and/or their beneficiaries in exchange of the services received from the employee or for the termination of employment. Such benefits are described below:

- **Short-term direct benefits**

Short-term direct employee benefits are recognized in results 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.

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- **Long-term direct benefits**

The Institution's net obligation in relation to direct long-term benefits (except for deferred 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.

- **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 within 12 months following the closing of the annual year, they are discounted.

- **Defined benefit plan**

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 plans for 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 is made annually by actuaries using the projected unit credit method. When the calculation results in a possible asset to the Institution, the 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 financing requirement should be taken into consideration.

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 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 reporting annual period, considering changes in the net liability (asset) from the defined benefits during the period as result of the estimates of the contributions and benefit payments.

The amendments to the plans that affect the cost for services provided are recognized in the income immediately in the year where said amendment occurs, without the possibility for deferral in subsequent years. Furthermore, the effects of any 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 the other comprehensive income 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, the Institution will recognize the modifications to the plans and remeasurements accumulated up to December 31, 2015,

gradually by year 2021 and during the next four years, recognizing 20% as from its initial application, and the corresponding 20% will be recognized in each one of the subsequent years.

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Employee Statutory Profit-Sharing incurred and deferred

Employee Statutory Profit-Sharing (PTU for the acronym in Spanish) incurred in the year is determined in accordance with current tax provisions.

Employee Profit-Sharing is accounted for in accordance with the assets and liabilities method, which compares accounting and tax values thereof. Deferred PTU (assets and liabilities) is recognized for future tax consequences attributable to the temporary differences between the accounting value of existing assets and liabilities and their tax basis. Deferred PTU is determined using rates provided by the corresponding law and shall be applied to taxable income in those years in which it is estimated temporary differences will revert. The effect of changes in tax rates over the deferred Employee Statutory Profit-Sharing is recognized in results of the period in which such changes are approved.

Deferred Employee Statutory Profit-Sharing is presented and classified in results for the period, except for those stemming from a transaction recognized in other comprehensive income or directly under caption stockholders' equity. Deferred Employee Statutory Profit-Sharing is presented under caption "Administrative and promotion expenses", in the consolidated statement of comprehensive income.

t. Stockholders' equity

Stockholders' equity and other accounts included under equity (reserves, accumulated results, etc.), are presented as follows: i) movements carried out starting January 1, 2008, at historical value, and ii) movements carried out up to December 31, 2007, at updated values as explained in Note 3 (b).

u. Segments

Financial information by segment is prepared based on the provisions in paragraph 6 of criterion A-2, *Application of Specific Standards*, issued by the CNBV through Exhibit 33 to the CUB, to allow the user of the financial information the analysis of the entity, with a view equal to the one of management or administration thereof.

Nafin segregates its activities according to the seven operating segments, as described below:

- **Markets and Treasury operation:** Through these activities, it is involved in the venture capital of public and private companies with focus on consolidating the financial structure thereof, including investment transactions made by the Institution on its own, such as investments in financial instruments, repurchase/resell agreements, securities lending and derivative financial instruments.
- **First Tier credit operation:** This corresponds to loans placed directly with companies of the public and private sector.
- **Second Tier credit operation:** This corresponds to channeling of resources through banking and non- banking financial intermediaries.
- **Loan guarantees:** Program whereby loan granting to MyPimes is encouraged through Nafin's involvement in the risk over financing granting by financial intermediaries.
- **Financial agent:** Loan transactions with resources from international financial bodies and those performed under an agency, where the Institution acts on behalf and by mandate of the Federal Government, under the terms and conditions established by the SHCP, as well as pursuant to the applicable regulations according to the funds source.

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- Trustee: Financial vehicle for management of properties and rights, through a trust or agency for a specific purpose.
- Other businesses (capital investment, subsidiaries, among others): Capital contributions through private capital funds to consolidate small and medium size companies. In addition to revenues from equity of the Institution in related companies.

v. Revenue recognition

Interest on loans granted including the interbank loans agreed for a term shorter than or equal to three business days, is charged to expense on an accrual basis. Interest on past-due loan portfolio is recognized in income upon effective collection.

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

Commissions from assets in custody or under management are recognized in income when the services are rendered, under the caption "Commission and fee income".

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

Fees for restructured or renewed loans are recorded as deferred loans 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 statement of comprehensive income, on an accrual basis, under the caption "Commission and fee income."

w. Foreign currency transactions

Foreign currency transactions are accounted for at the exchange rate in force on the date entered into. at the closing date of the consolidated financial statements, monetary assets and liabilities, denominated in foreign currency, are translated at the rate of closing exchange published by the Mexican Central Bank. Foreign exchange differences generated on the date transactions took place and those of their collection or payments, as well as those from translation to Mexican pesos of balances denominated in foreign currency at the date of the consolidated financial statements, are applied to results of the year in which they originate.

In the case of the London branch, foreign currencies different from the dollar, are first converted to dollars and subsequently to Mexican pesos in accordance with the previous paragraph.

x. Fair value

Fair value is the sales price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the valuation date.

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To determine the fair value, the following should be considered:

- a) the specific asset or liability subject to valuation;
- b) for a nonmonetary asset, the greatest and best use of the asset, and if the asset is used in combination with other assets or on an independent basis;
- c) the market in which an orderly transaction would take place for the asset or the liability; and
- d) the valuation technique or techniques appropriate to determine the fair value.

Fair value hierarchy

To increase coherence and comparability in the determinations of the fair value and the related information to be disclosed, the Accounting Criteria establishes a fair value hierarchy which classifies in three levels the inputs used to determine the fair value. The availability of relevant inputs and their relative subjectivity may affect the selection of the appropriate valuation techniques. However, the fair value hierarchy prioritizes the inputs rather than the valuation techniques used to determine the fair value.

The fair value hierarchy gives the highest priority to quoted (unadjusted) prices in active markets for identical assets and liabilities (Level 1 inputs) and the lowest priority to unobservable market inputs (Level 3 inputs).

The Institution classifies its assets and liabilities valued at fair value according to the following:

Level 1: When evidence of inputs is available in the main market of the asset and/or liability, and when the Institution may carry out a transaction for that asset and/or liability at the market price on the valuation date.

According to the Accounting Criteria, the Institution does not classify as Level 1 the updated prices for valuation which are determined by the use of internal valuation models.

Assets and liabilities at fair value presented in Level 1 should be transferred to the next level when: i) similar assets and liabilities valued at fair value have a quoted price in an active market, but it is not observable; ii) a price in an active market does not represent the fair value on the valuation date; or iii) the fair value of a liability or an equity instrument is determined using a quoted price in an active market and such price requires adjustments for specific factors.

Level 2: When: a) inputs are different from the ones available in the market but are observable substantially over the term of the asset and/or liability life; b) quoted prices are identical or similar in markets with not very frequent transactions and of sufficient volumes; c) inputs used are other than quoted prices but are observable; and d) inputs may be corroborated by the market.

Assets and liabilities at fair value presented in Level 2 are transferred to Level 3, when the adjustments made to non-observable inputs are relevant and significant for the whole valuation.

Level 3: There is a minimum market activity as of the valuation date of the asset and/or liability and, therefore, inputs are not observable for the valuation.

y. Memorandum accounts

Memorandum accounts correspond 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.

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

z. Contingencies

Contingencies represent assets and liabilities arising from past events, which existence should be confirmed only by the occurrence, or if applicable, by the lack of occurrence of one or more uncertain events in the future, which are not entirely under the control of the Institution.

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. In the absence of these reasonable elements, disclosure is included on a qualitative basis in the notes to the consolidated financial statements. Contingent revenues, profits or assets are not recognized until their realization is assured.

4. FOREIGN CURRENCY POSITION

Central Bank regulations require that banks maintain balanced positions in foreign currencies within certain limits. The short or long position allowed by Mexican Central Bank is equal to a maximum of 15% of the basic capital computed as of the third immediately preceding quarter. As of December 31, 2023 and 2022, the Institution's position is within the authorized limits.

The non-consolidated foreign currency position of Nacional Financiera, S.N.C. Institución de Banca de Desarrollo is analyzed as follows:

The consolidated foreign currency position is the following:

	Foreign currency position in dollars		Assessed amount	
Assets	\$ 5,454	\$ 5,069	\$ 92,540	\$ 98,888
Liabilities	(5,574)	(5,077)	(94,570)	(99,054)
Long (short) position	\$ (120)	\$ (8)	\$ (2,030)	\$ (166)

As of December 31, 2023 and 2022, the assets and liabilities in foreign currency, stated in millions, is shown below:

	2023			2022		
	Assets	Liabilities	Net position	Assets	Liabilities	Net position
US dollars	\$ 5,426	\$ (5,549)	\$ (123)	\$ 4,939	\$ (4,950)	\$ (11)
Japanese yens	9	-	9	15,028	(15,017)	11
Euros	19	(17)	2	9	(7)	2
Sterling pounds	6	(5)	1	6	(5)	1

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As of December 31, 2023 and 2022, Institution's assets and liabilities in foreign currencies translated to pesos are the following:

	2023			2022		
	Assets	Liabilities	Net position	Assets	Liabilities	Net position
US dollars	\$ 92,061	\$ (94,145)	\$ (2,084)	\$ 96,346	\$ (96,574)	\$ (228)
Japanese yens	1	-	1	2,219	(2,218)	1
Euros	352	(316)	36	183	(142)	41
Sterling pounds	126	(109)	17	140	(120)	20
	<u>\$ 92,540</u>	<u>\$ (94,570)</u>	<u>\$ (2,030)</u>	<u>\$ 98,888</u>	<u>\$ (99,054)</u>	<u>\$ (166)</u>

The effects in results for valuation of transactions in foreign currency for years ended December 31, 2023 and 2022, were (\$99) and \$62, respectively.

Assets and liabilities denominated in US dollars as of December 31, 2023 and 2022, were translated to Mexican pesos at the rate of exchange published by Banxico at \$19.99666 and \$19.5089, respectively, for one US dollar. The rate of exchange as of the date of the independent auditor's report on the accompanying consolidated financial statements was: \$16.7995 for one US dollar.

5. CASH AND CASH EQUIVALENTS

As of December 31, 2023 and 2022, cash and cash equivalents are comprised as follows:

	2023	2022
Domestic and foreign banks (a)	\$ 98,780	\$ 20,634
24 and 48 hrs. foreign exchange sales	-	(681)
Immediate collection documents	-	1
Restricted funds:		
Bank loans maturity less than 4 days (c)	5,846	3,202
Time deposits (b)	30,647	31,553
Deposits with Mexican Central Bank (d)	4,587	4,584
24, 48 and 72 hrs. foreign currency purchase	-	927
	<u>\$ 139,860</u>	<u>\$ 60,220</u>

- (a) On December 2023, funding was contracted for loan transactions approved by Government Bodies, were rescheduled for the first quarter of 2024, thus resources were temporarily invested in deposits at-sight under market terms.

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(b) As of December 31, 2023 and 2022, Time deposits are detailed below:

<u>2023</u>	<u>Amount</u>	<u>Annual rate</u>	<u>Term</u>
Bancomext	\$ 1,719	5.98%	90 days
Bancomext	1,719	5.94%	90 days
Bancomext	1,719	5.95%	90 days
Bancomext	854	5.93%	87 days
Bancomext	853	5.94%	90 days
Bancomext	852	5.93%	90 days
Bancomext	511	5.93%	88 days
Bancomext	2,553	5.93%	90 days
Bancomext	850	5.92%	87 days
Bancomext	1,615	5.92%	90 days
Bancomext	2,887	5.90%	90 days
Bancomext	2,207	5.88%	90 days
Bancomext	1,697	5.88%	90 days
Standard Chartered	1,700	5.33%	21 days
Standard Chartered	1,700	5.48%	32 days
Sumimoto Mitsui B	1,700	5.41%	30 days
Sumimoto Mitsui B	2,380	5.58%	63 days
Mizuho International PLC	7	4.20%	21 days
Mizuho International PLC	1,432	5.39%	21 days
Mizuho International PLC	1,692	5.42%	31 days
	\$ 30,647		
<u>2022</u>	<u>Amount</u>	<u>Annual rate</u>	<u>Term</u>
Bancomext	\$ 1,951	4.59%	63 days
Bancomext	976	4.69%	60 days
Bancomext	976	4.71%	60 days
Bancomext	976	4.70%	63 days
Bancomext	2,536	4.88%	90 days
Bancomext	585	4.85%	90 days
Bancomext	2,926	4.86%	90 days
Bancomext	976	4.86%	92 days
Bancomext	976	4.90%	90 days
Bancomext	878	4.87%	93 days
Bancomext	3,317	4.91%	90 days
Bancomext	1,951	4.93%	90 days
Mizuho International PLC	7	3.38%	14 days
Mizuho International PLC	1,600	4.30%	14 days
Standard Chartered	585	4.46%	34 days
Standard Chartered	975	4.45%	32 days
Standard Chartered	975	4.42%	31 days
Standard Chartered	975	4.69%	62 days
Sumimoto Mitsui B	1,366	4.39%	28 days
Sumimoto Mitsui B	975	4.43%	21 days
Sumimoto Mitsui B	390	4.44%	30 days

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<u>2022</u>	<u>Amount</u>	<u>Annual rate</u>	<u>Term</u>
Sumimoto Mitsui B	\$ 975	4.51%	61 days
The Bank Of Nova Scotia	293	4.38%	32 days
The Bank Of Nova Scotia	780	4.42%	30 days
The Bank Of Nova Scotia	585	4.43%	30 days
The Bank Of Nova Scotia	780	4.43%	32 days
The Bank Of Nova Scotia	293	4.53%	30 days
The Bank Of Nova Scotia	390	4.56%	32 days
The Bank Of Nova Scotia	585	4.56%	30 days
	<u>\$ 31,553</u>		

(c) As of December 31, 2023 and 2022, bank loans, maturity of less or equal to four days, were the following:

<u>2023</u>	<u>Amount</u>	<u>Annual rate</u>	<u>Term</u>
Banobras	\$ 119	11.25%	3 days
Scotiabank Inverlat	4,922	11.54%	3 days
Sociedad Hipotecaria Federal	805	11.51%	3 days
	<u>\$ 5,846</u>		
<u>2022</u>	<u>Amount</u>	<u>Annual rate</u>	<u>Term</u>
Banobras	\$ 176	10.78%	3 days
Credit Agricole CIB	975	10.99%	3 days
Mizuho Corporate Bank Ltd.	1,171	10.40%	3 days
Sociedad Hipotecaria Federal	880	10.29%	3 days
	<u>\$ 3,202</u>		

(d) As of December 31, 2023, deposits with the Central Bank correspond to deposits pursuant to monetary regulation which have no maturity. Interest generated by the deposits with the Central Bank for years ended December 31, 2023 and 2022, were \$518 and \$355, respectively. The Provisions in force issued by the Central Bank for monetary regulation deposits state that such deposits may be comprised of cash, securities or both.

As of December 31, 2023, cash and cash equivalents in foreign currency were comprised as follows:

	<u>Amounts in millions of the original foreign currency</u>	<u>Exchange rate</u>	<u>Term</u>	<u>Equivalence in local currency</u>
US dollars	2,418	16.9666	Less than 90 days	\$ 41,025
Euros	11	18.7455	Less than 90 days	206
Sterling pounds	1	21.6214	Less than 90 days	22
				<u>\$ 41,253</u>

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As of December 31, 2022, cash and cash equivalents in foreign currency were comprised as follows:

	Amount in millions of the original foreign currency	Exchange rate	Term	Equivalence in local currency
US dollars	1,832	19.5089	Less than 90 days	\$ 35,740
Euros	1	20.8092	Less than 90 days	21
Sterling pounds	1	23.4634	Less than 90 days	23
				<u>\$ 35,784</u>

6. INVESTMENTS IN FINANCIAL INSTRUMENTS

As of December 31, 2023, investments in negotiable financial instruments and for collecting or selling are comprised as follows:

	Principal	Interest	Increase (Decrease) by Valuation	Total
Negotiable Financial Instruments				
Debt instruments				
Government instruments	\$ 12,701	\$ 6	\$ 6	\$ 12,713
Bank instruments	-	-	-	-
Other instruments	5	-	-	5
Subsidiaries	16	1	-	17
Equity financial instruments				
Equity financial instruments	88	-	(45)	43
Subsidiaries	8,688	-	-	8,688
<i>Total Negotiable Financial Instruments</i>	<u>\$ 21,498</u>	<u>\$ 7</u>	<u>\$ (39)</u>	<u>\$ 21,466</u>
Negotiable Financial Instruments Restricted or Granted as Collateral				
Debt instruments				
Government instruments	\$ 176,737	\$ 115	\$ 68	\$ 176,920
Bank instruments	-	-	-	-
Other instruments	6,759	4	(5)	6,758
Equity financial instruments				
Equity financial instruments	-	-	-	-
<i>Total Restricted Negotiable Financial Instruments</i>	<u>183,496</u>	<u>119</u>	<u>63</u>	<u>183,678</u>
Total Negotiable Instruments	<u>\$ 204,994</u>	<u>\$ 126</u>	<u>\$ 24</u>	<u>\$ 205,144</u>
Financial Instruments for Collecting or Selling				
Debt instruments				
Government instruments	\$ 7,943	\$ 111	\$ 23	\$ 8,077
Bank instruments	119	1	(2)	118
Other instruments	9,945	139	(486)	9,598
Subsidiaries	20	-	-	20
Equity instruments				
Equity financial instruments	-	-	-	-
<i>Total Financial Instruments for Collecting or Selling</i>	<u>\$ 18,027</u>	<u>\$ 251</u>	<u>\$ (465)</u>	<u>\$ 17,813</u>

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	Principal	Interest	Increase (Decrease) by Valuation	Total
Financial Instruments for Collecting or Selling Restricted or Granted as Collateral				
Debt instruments				
Government instruments	\$ 2,629	\$ 30	\$ (69)	2,590
Bank instruments	256	2	(6)	252
Other instruments	-	-	-	-
Equity instruments				
Equity financial instruments	-	-	-	-
<i>Total Restricted Financial Instruments for Collecting or Selling</i>	<u>2,885</u>	<u>32</u>	<u>(75)</u>	<u>2,842</u>
Total Financial Instruments for Collecting or Selling	<u>\$ 20,912</u>	<u>\$ 283</u>	<u>\$ (540)</u>	<u>\$ 20,655</u>

As of December 31, 2022, investments in negotiable financial instruments and for collecting and selling are comprised as follows:

	Principal	Interest	Increase (Decrease) by Valuation	Total
Debt instruments				
Government instruments	\$ 25,720	\$ 7	\$ (52)	25,675
Bank instruments	-	-	-	-
Other instruments	7,737	2	(14)	7,725
Subsidiaries	5	-	-	5
Equity instruments				
Equity financial instruments	78	-	(36)	42
Subsidiaries	10,078	-	-	10,078
Total negotiable financial instruments	<u>\$ 43,618</u>	<u>\$ 9</u>	<u>\$ (102)</u>	<u>\$ 43,525</u>
Negotiable Financial Instruments Restricted or Granted as Collateral				
Debt instruments				
Government instruments	\$ 163,388	\$ 56	\$ (76)	163,368
Bank instruments	-	-	-	-
Other instruments	5,705	2	(10)	5,697
Equity instruments				
Equity financial instruments	-	-	-	-
Total restricted negotiable financial instruments	<u>169,093</u>	<u>58</u>	<u>(86)</u>	<u>169,065</u>
Total Negotiable Financial Instruments	<u>\$ 212,711</u>	<u>\$ 67</u>	<u>\$ (188)</u>	<u>\$ 212,590</u>

	Principal	Interest	Increase (Decrease) by Valuation	Total
Financial instruments for collecting or selling				
Debt instruments				
Government instruments	\$ 7,677	\$ 34	\$ 16	7,727
Bank instruments	431	3	(16)	418
Other instruments	13,809	173	(784)	13,198
Subsidiaries	27	-	-	27
Equity instruments				
Financial equity instruments	-	-	-	-
Total financial instruments for collecting or selling	<u>\$ 21,944</u>	<u>\$ 210</u>	<u>\$ (784)</u>	<u>\$ 21,370</u>

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	Principal	Interest	Increase (Decrease) by Valuation	Total
Financial Instruments for Collecting or Selling Restricted or Granted as Collateral				
Debt instruments				
Government instruments	\$ 2,733	\$ 29	\$ (166)	\$ 2,596
Bank instruments	-	-	-	-
Other instruments				
Equity instruments	-	-	-	-
Equity financial instruments	-	-	-	-
Total restricted financial instruments for collecting or selling	<u>2,733</u>	<u>29</u>	<u>(166)</u>	<u>2,596</u>
Total Financial Instrument for Collecting or Selling	<u>\$ 24,677</u>	<u>\$ 239</u>	<u>\$ (950)</u>	<u>\$ 23,966</u>

As of December 31, 2023, investments in financial instruments for collecting principal and interest are comprised as follows:

Financial instruments for collecting principal and interest	Items pending amortization	Accrued and uncollected interests	Expected credit loss	Amortized cost
Debt instrument				
Government instruments	\$ 647	\$ 591	\$ (1)	\$ 1,237
Bank instruments	-	-	-	-
Other instruments	436	99	(27)	508
Total financial instruments for collecting principal and interest	<u>\$ 1,083</u>	<u>\$ 690</u>	<u>\$ (28)</u>	<u>\$ 1,745</u>
Financial instruments for collecting principal and interest restricted or granted as collateral				
Financial instruments				
Government instruments	\$ 5,056	\$ 4,635	\$ (9)	\$ 9,682
Bank instruments	-	-	-	-
Other instruments	-	-	-	-
Total restricted financial instruments for collecting principal and interest	<u>\$ 5,056</u>	<u>\$ 4,635</u>	<u>\$ (9)</u>	<u>\$ 9,682</u>
Total financial instruments for collecting principal and interest	<u>\$ 6,139</u>	<u>\$ 5,325</u>	<u>\$ (37)</u>	<u>\$ 11,427</u>

As of December 31, 2022, investments in financial instruments for collecting principal and interest are comprised as follows:

Financial instruments for collecting principal and interest	Items pending amortization	Accrued and uncollected interests	Expected credit loss	Amortized cost
Debt instruments				
Government instruments	\$ 401	\$ 333	\$ (2)	\$ 732
Bank instruments	-	-	-	-
Other instruments	485	92	(36)	541
Total financial instruments for collecting principal and interest	<u>\$ 886</u>	<u>\$ 425</u>	<u>\$ (38)</u>	<u>\$ 1,273</u>

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Financial instruments for collecting principal and interest	Items pending amortization	Accred and uncollected interests	Expected credit loss	Amortized cost
Financial instruments for collecting principal and interest restricted granted in collateral				
Debt instruments				
Government instruments	\$ 5,410	\$ 4,519	\$(19)	9,910
Bank instruments	-	-	-	-
Other instruments	-	-	-	-
Total restricted financial instruments for collecting principal and interest	<u>5,410</u>	<u>4,519</u>	<u>(19)</u>	<u>9,910</u>
Total financial instruments for collecting principal and interest	<u>\$ 6,296</u>	<u>\$ 4,944</u>	<u>\$(57)</u>	<u>11,183</u>

Financial instruments for collecting principal and interest as of December 31, 2023 and 2022, respectively, are denominated in the following currencies:

2023			
	Local Currency	Euros	US Dollars
Unrestricted			
Stock certificates	\$ 190	\$ -	\$ -
Udibonos	94	-	-
Non-strippable stock certificates	1,142	-	-
Stock Certificates Federal Government Entities	-	19	300
Restricted			
Non-strippable stock certificates	9,682	-	-
Total	<u>\$ 11,108</u>	<u>\$ 19</u>	<u>\$ 300</u>
2022			
	Local Currency	Euros	US Dollars
Unrestricted			
Stock Certificates	\$ 182	\$ -	\$ -
Udibonos	90	-	-
Non-strippable stock certificates	642	-	-
Stock Certificates Federal Government Entities	-	20	340
Restricted			
Non-strippable stock certificates	9,910	-	-
Total	<u>\$ 10,824</u>	<u>\$ 20</u>	<u>\$ 340</u>

Investments in financial instruments as of December 31, 2023 and 2022, have the following maturity terms:

Financial instruments for direct trading.

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Unrestricted Negotiable Financial Instruments (Principal).

	2023				
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Bondes	\$ 6	\$ 6,112	\$ 3,912	\$ -	\$ 10,030
M Bonds	4	114	290	27	435
Stock Certificates Federal Government Entities	5	-	-	-	5
Treasury Certificates	-	337	-	-	337
Ipabonos	1,909	-	-	-	1,909
Udibonos	-	-	-	(10)	(10)
Total individual	\$ 1,924	\$ 6,563	\$ 4,202	\$ 17	\$ 12,706
<u>Equity Financial Instruments</u>					88
Subsidiaries					8,704
Total consolidated					\$ 21,498

Restricted Financial Instruments (Principal).

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Bondes	\$ 20,379	\$ 46,785	\$ 27,595	\$ 1,492	\$ 96,251
M Bonds	-	10	-	298	308
Stock Certificates	602	-	-	-	602
Stock Certificates Federal Government Entities	6,157	-	-	-	6,157
Treasury Certificates	1,046	1,909	-	-	2,955
Ipabonos	17,108	27,273	22,901	9,808	77,090
Udibonos	-	52	3	78	133
Total consolidated	\$ 45,292	\$ 76,029	\$ 50,499	\$ 11,676	\$ 183,496

Unrestricted Negotiable Financial Instruments (Principal).

Row tags	1 to 3 years	3 to 5 years	More than 5 years	Less than 1 year	Overall total
Bondes	\$ 504	\$ 6,532	\$ 1,087	\$ 11,827	\$ 19,950
M Bonds Bonos	19	3	(65)	5	(38)
Stock Certificates Development Banking	-	-	-	101	101
Stock Certificates Federal Government Entities	1,040	-	-	6,596	7,636
Treasury Certificates	33	-	-	1,162	1,195
Ipabonos	2,954	-	-	1,659	4,613
Udibonos	-	-	-	-	-
Total individual	\$ 4,550	\$ 6,535	\$ 1,022	\$ 21,350	\$ 33,457
Subsidiaries					5
Total consolidated					\$ 33,462

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Restricted negotiable instruments for trading (Principal).

Row tags	1 to 3 years	3 to 5 years	More than 5 years	Less than 1 year	Total
Bondes	\$ 68,075	\$ 10,883	\$ 62	\$ 6,751	\$ 85,771
M Bonds	39	8	611	629	1,287
Stock Certificates Federal Government	1,468	-	-	4,237	5,705
Treasury Certificates	-	-	-	903	903
Ipabonos	37,581	19,277	4,959	13,500	75,317
Udibonos	1	28	62	19	110
Total individual	\$ 107,164	\$ 30,196	\$ 5,694	\$ 26,039	\$ 169,093

Unrestricted financial instruments for collecting or selling (Principal).

	2023				Total
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	
Bondes	\$ 3,657	\$ 993	\$ -	\$ -	\$ 4,650
Stock Certificates	-	684	250	248	1,182
Stock Certificates Federal Government Entities	1,992	3,158	1,412	2,320	8,882
Ipabonos	-	-	-	3,166	3,166
Sovereign Debt	-	-	126	-	126
Subsidiaries	21-	-	-	-	21
Total	\$ 5,670	\$ 4,835	\$ 1,788	\$ 5,734	\$ 18,027

Restricted financial instruments for collecting and selling (Principal).

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Sovereign debt	\$ -	\$ -	\$ 1,072	\$ 1,557	\$ 2,629
Stock Certificates	-	256	-	-	256
Total	\$ -	\$ 256	\$ 1,072	\$ 1,557	\$ 2,885

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Financial instruments for collecting or selling direct (Principal).

Row tags	2022				Total
	Less than 1 year	1 to 3 years	3 to 5 years	More than de 5 years	
Sovereign debt	\$ -	\$ -	\$ 62	\$ 164	\$ 226
Bondes	1,677	5,775	-	-	7,452
Stock Certificates Private Companies	100	151	321	147	719
Stock Certificates Development Banking	62	905	320	-	1,287
Stock Certificates Federal Government	2,991	3,044	2,628	3,393	12,056
International Financial Bodies	-	177	-	-	177
Total individual	\$ 4,830	\$ 10,052	\$ 3,331	\$ 3,704	\$ 21,917
Subsidiaries					27
Total consolidated					\$ 21,944

Restricted financial instruments for buying and selling (Principal).

Row tags	3 to 5 years	More than 5 years	Total
Sovereign debt	\$ 476	\$ 2,257	\$ 2,733

Financial instruments for collecting principal and interest direct (Items pending amortization).

Row tags	2023				Total
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	
Stock Certificates	\$ -	\$ 99	\$ -	\$ -	\$ 99
Udibonos	-	-	-	50	50
Non-strippable stock certificates	-	-	-	597	597
Stock Certificates Federal Government	-	19	318	-	337
Total	\$ -	\$ 118	\$ 318	\$ 647	\$ 1,083

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Restricted financial instruments for collecting and selling (Items pending amortization).

	<u>Less than 1 year</u>	<u>1 to 3 years</u>	<u>3 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Non-strippable stock certificates	\$ -	\$ -	\$ -	\$ 5,056	\$ 5,056
Total	\$ -	\$ -	\$ -	\$ 5,056	\$ 5,056

Financial instruments for collecting principal and interest direct (Items pending amortization).

<u>Row tags</u>	<u>2022</u>			<u>Total</u>
	<u>1 to 3 years</u>	<u>3 to 5 years</u>	<u>More than 5 years</u>	
Stock Certificates Federal Government Entities	\$ 22	\$ 365	\$ -	\$ 387
Stock Certificates Private Companies	-	99	-	99
Udibonos	-	-	50	50
Non-strippable stock certificates	-	-	350	350
Total consolidated	\$ 22	\$ 464	\$ 400	\$ 886

Restricted financial instruments collecting and selling (Items pending amortization).

<u>Row tags</u>	<u>More than 5 years</u>	<u>Total</u>
Sovereign debt	\$ 5,410	\$ 5,410

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The hierarchy of fair value of the financial instruments of the Institution as of December 31, 2023 and 2022, is analyzed below:

Financial instruments	2023			
	Level 1	Level 2	Level 3	Total
Financial instruments				
Unrestricted negotiable financial instruments				
-Government securities	\$ 12,713	\$ -	\$ -	\$ 12,713
-Bank securities	-	-	-	-
-Other instruments	5	-	-	5
-Bank securities (Subsidiaries)	17	-	-	17
-Equity Financial Instruments	43	-	-	43
-Equity Financial Instruments (Subsidiaries)	-	166	8,522	8,688
Restricted Financial Instruments (repurchase/resell agreement)				
-Government securities	176,920	-	-	176,920
-Bank securities	-	-	-	-
-Other instruments	6,758	-	-	6,758
-Equity Financial Instruments	-	-	-	-
Total negotiable financial instruments	196,456	166	8,522	205,144
Unrestricted financial instruments for buying and selling				
-Government securities	8,077	-	-	8,077
-Bank securities	118	-	-	118
-Other instruments	9,598	-	-	9,598
-Bank securities (Subsidiaries)	10	-	-	10
-Other instruments (Subsidiaries)	10	-	-	10
-Equity Financial Instruments	-	-	-	-
Restricted financial instruments for buying and selling (repurchase/resell agreement)				
-Government securities	2,590	-	-	2,590
-Bank securities	252	-	-	252
-Other instruments	-	-	-	-
-Equity Financial Instruments	-	-	-	-
Total financial instruments for buying and selling	\$ 20,655	\$ -	\$ -	\$ 20,655
	2022			
	Level 1	Level 2	Level 3	Total
Financial instruments				
Unrestricted negotiable financial instruments				
-Government securities	\$ 25,676	\$ -	\$ -	\$ 25,676
-Bank securities	-	-	-	-
-Other instruments	7,725	-	-	7,725
-Bank securities (Subsidiaries)	-	-	4	4
-Equity Financial Instruments	43	-	-	43
-Equity Financial Instruments (Subsidiaries)	-	-	10,077	10,077
Unrestricted negotiable financial instruments (Repurchase/resell agreement)				
-Government securities	163,368	-	-	163,368
-Bank securities	-	-	-	-
-Other instruments	5,697	-	-	5,697
-Equity Financial Instruments	-	-	-	-
Total negotiable financial instruments	202,509	-	10,081	212,590
Unrestricted financial instruments for buying and selling				
-Government securities	7,728	-	-	7,728
-Bank securities	419	-	-	419
-Other instruments	13,197	-	-	13,197
-Bank securities (Subsidiaries)	17	-	-	17
-Other instruments (Subsidiaries)	10	-	-	10
-Equity Financial Instruments	-	-	-	-
Restricted financial instruments for buying and selling (repurchase agreement)				
-Government securities	2,595	-	-	2,595
-Bank securities	-	-	-	-
-Other instruments	-	-	-	-
-Equity Financial Instruments	-	-	-	-
Total financial instruments for buying and selling	\$ 23,966	\$ -	\$ -	\$ 23,966

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Movements of the preventive allowance for credit risks for investments in financial instruments are shown below:

	<u>2023</u>	<u>Movement</u>	<u>2022</u>
Financial Instruments for Buying or Selling			
Debt instruments			
Government instruments	\$ (29)	\$ (24)	\$ (5)
Bank instruments	-	16	(16)
Other instruments	8	268	(260)
<i>Total Financial Instruments for Buying or Selling</i>	<u>\$ (21)</u>	<u>260</u>	<u>\$ (281)</u>
Financial Instruments for Collecting Principal and Interest			
Debt instruments			
Government instruments	\$ (1)	\$ 1	\$ (2)
Bank instruments	-	-	-
Other instruments	(27)	9	(36)
Loans granted by the Entity			
Loans	-	-	-
<i>Total Financial Instruments for Collecting Principal and Interest</i>	<u>\$ (28)</u>	<u>10</u>	<u>\$ (38)</u>
Financial Instruments for Collecting Principal and Interest Restricted or Granted as Collateral			
Debt instruments			
Government instruments	\$ (9)	\$ 10	\$ (19)
Bank instruments	-	-	-
Other instruments	-	-	-
<i>Total Restricted Financial Instruments for Collecting Principal and Interest</i>	<u>\$ (9)</u>	<u>10</u>	<u>\$ (19)</u>

Financial Instruments for Collecting Principal and Interest (IFCPI for the acronym in Spanish) as of December 31, 2023 and 2022, are denominated in the following currencies.

Financial Instruments for Collecting Principal and Interest at Fair Value by currency:

	<u>2023</u>		
	<u>Local Currency</u>	<u>Euros</u>	<u>US dollars</u>
Unrestricted			
Stock certificates	\$ 190	-	-
Udibonos	94	-	-
Non-strippable stock certificates	1,142	-	-
Stock Certificates Federal Government Entities	-	18	300
Restricted			
Non-strippable stock certificates	9,683	-	-
Total	<u>\$ 11,109</u>	<u>18</u>	<u>300</u>

Financial Instruments for Collecting Principal and Interest at Fair Value by currency:

	<u>2022</u>		
	<u>Local Currency</u>	<u>Euros</u>	<u>US dollars</u>
Unrestricted			
Stock certificates	\$ 182	-	-
Udibonos	90	-	-
Non-strippable stock certificates	642	-	-
Stoc Certificates Federal Government Entities	-	20	340
Restricted			
Non-strippable stock certificates	9,910	-	-
Total	<u>\$ 10,824</u>	<u>20</u>	<u>340</u>

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7. REPURCHASE/RESELL AGREEMENT TRANSACTIONS

As of December 31, 2023 and 2022, the "Debtors on repurchase/resell agreements" and "Creditors on repurchase/resell agreements" balances of current transactions in which the Institution acts as buyer or as seller, are analyzed as follows:

Purchase/Sale of Financial Instruments in Repurchase/Resell Agreements	Debtors on Repurchase / Resell Agreements	Creditors on Repurchase / Resell Agreements
	2023	2023
Debt instruments		
Government instruments	\$ 47,266	\$ (186,990)
Bank instruments	-	(217)
Other instruments	-	(6,763)
Subsidiaries	54	-
	<u>\$ 47,320</u>	<u>\$ (193,970)</u>

Collateral sold or pledged

	2023
Debt instruments	
Government instruments	\$ (47,266)
Bank instruments	-
Other instruments	-
	<u>\$ (47,266)</u>

Purchase/Sale of Financial Instruments in Repurchase/Resell Agreements	Debtors on Repurchase / Resell Agreements	Creditors on Repurchase / Resell Agreements
	2022	2022
Debt instruments		
Government instruments	\$ 62,224	\$ (174,623)
Bank instruments	-	(4)
Other instruments	-	(5,707)
Subsidiaries	232	-
	<u>\$ 62,456</u>	<u>\$ (180,334)</u>

Collateral sold or pledged

	2022
Debt instruments	
Government instruments	\$ (62,224)
Bank instruments	-
Other instruments	-
	<u>\$ (62,224)</u>

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Collateral Received from Repurchase/Resell Agreements	<u>2023</u>	<u>2022</u>
Debt instruments		
Government instruments	\$ 47,217	\$ 62,223
Bank instruments	-	-
Other instruments	-	-
	<u>\$ 47,217</u>	<u>\$ 62,223</u>
Collateral Received from Repurchase/Resell Agreements		
Debt instruments		
Government instruments	\$ 47,217	\$ 62,223
Bank instruments	-	-
Other instruments	-	-
	<u>\$ 47,217</u>	<u>\$ 62,223</u>
Collateral Pledged as Surety Guarantee		
Debt instruments		
Government instruments*	-	-
Bank instruments	-	-
Other instruments	-	-
	<u>-</u>	<u>-</u>

Interest collected in purchase transactions of repurchase/resell agreements in 2023 and 2022 amounted to \$24,979 and \$18,856, respectively.

Interest paid in transactions of sale of resell agreements and sale of collateral received and sold in 2023 and 2022 amounted to \$21,375 and \$16,189, respectively.

The average term for resell transactions of purchase/resell agreements is 4 days at an average rate of 11.35%.

The average term for purchase transactions of purchase/resell agreements is 4 days at an average rate of 11.52%.

The average term for the collaterals purchase/resell agreements received is 4 days with an average interest rate of 11.38%.

8. DERIVATIVES

As of December 31, 2023 and 2022, the fair value of derivative financial instruments for trading and hedging purposes, recognized under the caption "Derivatives", is analyzed as follow:

	<u>2023 Position</u>		<u>2022 Position</u>	
	Asset	Liability	Asset	Liability
For trading purposes:				
Swaps	\$ 9,654	\$ (9,656)	\$ 11,793	\$ (11,801)
For hedging purposes:				
Swaps	\$ 2,857	\$ (4,171)	\$ 2,867	\$ (9,548)

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

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

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

The Institution through the Integral Risk Management Committee (CAIR for the acronym in Spanish) performs various analyses on underlying markets for derivative instruments that are traded for purposes of identifying and assess the inherent risks. Transactions with futures and forward contracts, involve recovery risks in the event of contractual fluctuations. To reduce the risks in the operation of these instruments, the Institution maintains matched positions.

	<u>2023</u>	<u>2022</u>
Futures and forward contracts		
<u>Purchases</u>		
Contract value	\$ -	\$ 7.07
Valuation	\$ -	\$ (0.24)
<u>Sales</u>		
Contract value	\$ (2.34)	\$ -
Valuation	\$ -	\$ -

Swaps for trading purposes:

	<u>2023</u>			<u>2022</u>		
	<u>Contract value</u>	<u>Receivable</u>	<u>Deliverable</u>	<u>Contract value</u>	<u>Receivable</u>	<u>Deliverable</u>
Interest rate	\$ 530,970	\$ 9,654	\$ (9,656)	\$ 483,860	\$ 11,793	\$ (11,801)

Swaps for hedging purposes:

	<u>2023</u>			<u>2022</u>		
	<u>Contract value</u>	<u>Receivable</u>	<u>Deliverable</u>	<u>Contract value</u>	<u>Receivable</u>	<u>Deliverable</u>
Interest rate	\$ 91,237	\$ 2,857	\$ (4,171)	\$ 112,917	\$ 2,867	\$ (9,548)

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As of December 31, 2023 and 2022, recorded effectiveness/ineffectiveness derived from the application of the Accounting Criterion C-10, *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 hedging swaps (with impact on results) is as follows:

	<u>2023</u>		<u>2022</u>
Ineffectiveness for:			
Investment hedging	\$ 93	\$	71
Deposit funding hedging	5		(1)
Loan portfolio hedging	-		-
Total	<u>\$ 98</u>	<u>\$</u>	<u>70</u>

As of December 31, 2023 and 2022, the net effect of valuation of the position hedged and swaps for hedging of cash flow (affecting equity), is shown below:

	<u>2023</u>		<u>2022</u>
Hedging			
Cash flows (investment)	\$ 773	\$	293

As of December 31, 2023, the Institution has only contracted swaps as fair value hedging instruments and cash flows.

Swaps for trading purposes (with impact on results)

As of December 31, 2023 and 2022, respectively, the effect on results by swaps contracted for trading purposes is the following:

	<u>2023</u>		<u>2022</u>
Interest rate	\$ (3)	\$	(8)

The adjustments to the carrying amount arising from interest rate hedging derivative transactions on financial assets and liabilities, due to the application of the Accounting Criterion C-10, *Derivatives and hedging transactions* of the Banking Commission, as of December 31, 2023 and 2022, are detailed below:

	<u>2023</u>		<u>2022</u>	
	<u>Asset</u>	<u>Liability</u>	<u>Asset</u>	<u>Liability</u>
Investment hedging	\$ 537	\$ (927)	\$ 435	\$ (999)
Deposit funding hedging	2,976	-	5,105	-
Loan portfolio hedging	-	(738)	-	(1,281)
Total	<u>\$ 3,513</u>	<u>\$ (1,665)</u>	<u>\$ 5,540</u>	<u>\$ (2,280)</u>

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The net gain, included in results for the year ended December 31, 2023 and 2022 resulting from the valuation of instruments used for fair value hedging purposes, amounted to \$1,231 and \$(162), respectively. The effect of the gain (loss) related to the valuation of the effective hedge portion for the year ended December 31, 2023 and 2022, amounted to \$(1,203) and \$161, respectively.

The Institution classifies its derivative financial instruments at fair value in accordance with the following:

	2023			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments:				
Fair value hedging				
SWAPS				
To hedge portfolio				
Asset	\$ -	\$ 880	\$ -	\$ 880
To hedge liabilities				
Asset	-	1,349	-	1,349
To hedge investments				
Asset	-	629	-	629
Trading				
SWAPS				
Asset	-	9,653	-	9,653
FUTURES				
Asset	-	-	-	-
Total assets	\$ -	\$ 12,511	\$ -	\$ 12,511

	2023			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments:				
Fair value hedging				
SWAPS				
To hedge portfolio				
Liability	\$ -	\$ 68	\$ -	\$ 68
To hedge liabilities				
Liability	-	4,092	-	4,092
To hedge investments				
Liability	-	11	-	11
Trading				
SWAPS				
Liability	-	9,656	-	9,656
FUTURES				
Liability	-	-	-	-
Total liabilities	\$ -	\$ 13,827	\$ -	\$ 13,827

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	2023			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments:				
Fair value hedging				
SWAPS				
To hedge portfolio				
Asset	\$ -	\$ 1,307	\$ -	\$ 1,307
To hedge liabilities				
Asset	-	588	-	588
To hedge investments				
Asset	-	972	-	972
Trading				
SWAPS				
Asset	-	11,793	-	11,793
FUTURES				
Asset	-	-	-	-
Total assets	\$ -	\$ 14,660	\$ -	\$ 14,660

	2023			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments:				
Fair value hedging				
SWAPS				
To hedge portfolio				
Liability	\$ -	\$ 23	\$ -	\$ 23
To hedge liabilities				
Liability	-	9,523	-	9,523
To hedge investments				
Liability	-	2	-	2
Trading				
SWAPS				
Liability	-	11,801	-	11,801
FUTURES				
Liability	-	-	-	-
Total liabilities	\$ -	\$ 21,349	\$ -	\$ 21,349

Use of derivative financial instruments policy management

The Institution's policies allow the use of derivative instruments for hedging and trading purposes. The main objectives of the operation of these instruments are 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.

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Derivative financial instruments used by the Institution are interest rate and currency swaps, IPC 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 stock markets (clearing house) and over-the-counter markets (OTC). Eligible counterparties are domestic and foreign bank.

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 (CAIR for the acronym in Spanish)), whose duties include approval of:

- a. 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.
- b. 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.
- c. The models, parameters and scenarios that must be used to value, measure, and control the risks proposed by the Unit for Integral Risk Management must concur with the Institution's technology.
- d. The methodologies for identifying, valuing, measuring and controlling the risks of the new transactions, products, and services that the Institution plans to offer to the market.
- e. The corrective actions proposed by the Chief Executive Officer through the Unit for Integral Risk Management.
- f. The assessment of aspects of Integral Risk Management referred to in Article 77 of the General Provisions Applicable to Credit Institutions, the Single Banking Circular (the Provisions) for its presentation to the Board of Directors and the National Banking and Securities Commission (CNBV).
- g. 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.

The Committee, in accordance with the powers granted by the Board of Directors, approves all new products or services traded in relation with any line of business.

Independent reviews

The Institution is under the supervision and monitoring of the CNBV and the Mexican Central Bank, which is performed through processes of monitoring, inspection visits, requirements of information and documentation, and delivery of reports. Additionally, periodic reviews are conducted by the internal and external auditors.

General description of valuation techniques

Derivative financial instruments are valued in accordance with accounting regulation reflected in the bulletins: C-2 and C-10 released by the CINIF, according to the provisions in Criterion A-2, *Application of particular standards of the General Provisions Applicable to Credit Institutions*, released by the CNBV. It should be mentioned that the NIF C-2 of the CINIF provides support to clarify in general the valuation, presentation and disclosure standards for investments in financial Instruments, while NIF C-10 examines in detail the valuation, presentation and recognition of the Derivative Financial Instruments, as well as of its hedging relationship.

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Current regulation is founded on the concept of the business model of management of investments in financial instruments, based on the form of obtaining cash flows. The valuation of investments in financial instruments will depend on the business model and each model will have a different caption in the statement of comprehensive income.

Derivative Financial Instruments may be used either for trading purposes or for hedging purposes. When these are contracted with trading purposes, they are held with the intention of obtaining gains based on the financial margin, as well as on the changes in their fair value. When it is intended to use them with hedging purposes, these have the purpose of compensating or transforming the profile of one or several of the risks generated by a hedged item.

This latter case requires the alignment of the hedging relationships with the risk management strategy that the entity has established and disclosed, which is documented in operating and regulatory manuals setting out the used valuation methodologies.

Valuation methodology

1. For derivatives with trading and hedging purposes - There is a structure of operating and regulatory manuals that set forth the used valuation methodologies.
2. Reference inputs - The parameters used in the valuation process are those used by convention in the market practices (rates, exchange rates, prices, volatilities, etc.).
3. The frequency of valuation of derivative financial instruments for trading purposes is daily, through the transactional system.

Management 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 back testing are performed on a regular basis to estimate the impact on derivative 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 CAIR.

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

- Tequila Effect (1994)
- Russian Crisis (1998)
- Twin Towers (2001)
- Mexican Stock Exchange (2002)
- Real Interest Rate Effect (2004)
- Mortgage Crisis Effect (2008)
- US Elections Effect (2016)
- COVID-19 Effect (2020)

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Back testing 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%
- The portfolio valuation with the new risk factors at day t+ 1.

During 2023, the number of derivative financial instruments traded was the following:

Instrument		Number of Operations		Notional (millions of pesos))	
		Trading	Hedging	Trading	Hedging
Futures	(1)	19	-	94	-
Forwards (arbitrage)	(2)	56	-	(150)	-
Swaps	(3)	1,073	164	275,255	97,630

- (1) The number of transactions is equal to purchase transactions minus sales. Notional refers to number of contracts: 1,277 of purchase and (1,296) of sales.
(2) Purchasing transactions. Notional in millions of US dollars.
(3) Notional amount traded during the year.

During 2022, the number of derivative financial instruments traded was the following:

Instrument		Number of Operations		Notional (millions of pesos))	
		Trading	Hedging	Trading	Hedging
Futures	(1)	27	-	146	-
Forwards (arbitrage)	(2)	114	-	(450)	-
Swaps	(3)	711	74	249,305	65,752

- (1) The number of transactions is equal to purchase transactions minus sales. Notional refers to number of contracts: 1,846 of purchase and (1,819) of sales.
(2) Purchasing transactions. Notional in millions of US dollars.
(3) Notional amount traded during the year.

Exposure to credit risk of the counterparty, as well as losses that could exist associated to this type of risk, which have been generated in the period on the contracted derivative financial instruments.

Type of derivative financial instruments	2023			2022		
	CVA	DVA	BVA	CVA	DVA	BVA
Derivative Financial Instruments	126	148	-	97	363	-
For trading purposes	31	47	-	33	75	-
Forwards received	-	-	-	-	-	-
Swaps	31	37	-	33	75	-
For hedging purposes	95	101	-	63	287	-
Swaps	95	101	-	63	287	-

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Formal documentation of hedges

For purposes of compliance with the applicable regulations with respect to derivatives and hedging transactions Criterion C-10 released by the Mexican Financial Reporting Standards Board (CINIF), the Institution has a hedge file that includes the information shown as follows:

1. File cover letter.
2. Authorization of the hedge.
3. Diagram of the strategy.
4. Evidence of prospective tests of hedge effectiveness.
5. Evidence of execution of the derivative.
6. Details of the primary position being hedged.
7. Derivative confirmation.
8. Form in which the effectiveness of the hedging relationship is evaluated.

Adjustment for valuation of financial assets/liabilities hedging

Fair value hedging for interest rate risk of a portion of a portfolio comprises by financial assets/liabilities may generate an adjustment to the carrying amount of the hedged item, for the gain or loss, that is recognized in results for the period and presented under caption "Valuation adjustments for hedging of financial assets/liabilities".

As of December 31, 2023 and 2022, the hedging valuation adjustment is presented under caption "Valuation adjustments for hedging of financial assets" in the consolidated statement of financial position amounting to \$854 and \$161, respectively. While the "Valuation adjustment for hedging of financial liabilities" amounts to \$994 and \$3,098, respectively.

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:
 1. 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.
 2. Modified Duration: It is the percentage variation experienced by the price of an instrument in light of small variations in the market interest rate.
2. Convexity. – It is the variation experienced by the slope of the with respect to a dependent variable, i.e., it measures the variation experienced, by the duration when rates change.
3. Beta. – It is the measurement of the systematic risk of a share.

This analysis is communicated to the instances that define the strategy of operation of the derivatives in the financial markets and to the operators in the same, with the objective that the criteria applied in the consideration of risk with these instruments be in compliance with the rules.

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9. LOAN PORTFOLIO

Financing granted by Nafin are channeled through three financial programs:

- **First-tier Loan Program.**- Nafin provides support to public and private sector eligible entities, through the granting of resources for operations in which Nafin assumes directly the credit risk, for the purpose of promoting, managing and setting up projects for attending the needs of the industrial, commercial and service sectors of the country, or that provide a better use of each region's resources, as well as transactions with the Federal Government, parastatal sector entities, federal and municipal entities, the latter through three products:
 - **Traditional:** Nafin provides direct support to the private and public sectors, through the granting of loans or participating in co-funding with the IFBs (Financial intermediaries) and other bodies.
 - **Investment Projects:** Nafin directly grants resources to companies, Special Purpose Vehicles and local and international financial intermediaries, of both the private and public sectors that promote projects that lead to ecologic, economic and social development, based on a better use and exploitation of natural resources.
 - **Prime Certification:** Support to Mexican companies, through direct granting of credits to cover working capital needs, fixed assets investments and/or debt restructuring, along with an institutionalization process of their governing bodies, operating processes and information systems to generate quality financial information and accounting records, among others, to eventually comply with the standards laid down by the Mexican Stock Exchange or any exchanges in Mexico for debt issue, as a medium and long-terms financing alternative.
- **Second-tier Credit Program.** - It is the channeling of resources to companies through a network of Financial Intermediaries. The company's financial risk is assumed by the financial intermediaries, while the intermediaries' credit risk is assumed by Nafin.

The credit origination strategy of PROCRESE is determined from different distribution channels with which the Institution relies on for its Second-tier operation to comply with its mission of supporting individuals and legal entities, who carry out business activities in the industrial, commercial and service sectors, with an emphasis on small and medium size companies.

- Through the Guarantee Program, Nafin has the purpose that a greater number of companies obtain access to formal financing, sharing the risk that loan institutions assign to the different business strata, searching for better financing terms and conditions, less information and collateral requirements, as well as having a wider range of PYMES (small and medium company) products; this function is carried out through the network of financial intermediaries, under the following schemes:
 - **Automatic Guarantee:** It is granted to back up portfolios comprised by individual credits, approved under similar credit processes and characteristics. Automaticity consists in not requiring the approval on a case by case by Nafin to guarantee the transactions, and it is ruled by a non-discretionary principle in the portfolio integration.

The authorization is supported in the review and validation by Nafin of the credit process applied by the intermediary.
 - **Surety Bond Guaranty:** Shared risk with surety entities for the bonds the latter issue to companies, for the purpose of provisioning the bonding capacity as providers of the Federal Government agencies and entities, state and private institutions.

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- Selective Guarantee: Nafin shares with financial intermediaries the credit risk of financings the latter grant to small, medium and large companies, of the industrial, commercial and service sectors, as well as public and private entities requiring financing for amounts greater than those provided by the Automatic Guarantee Scheme.
- Stock Warranty: Granted to guarantee the issue of marketable debt securities carried out by those subject to eligible support, for the purpose of obtaining financing from the investing public for their investment projects and/or improve the terms and conditions of their debt liabilities, and in which recipients of the guarantee are the holders of the debt securities issued.

The Guarantee Portfolio collects contractual cash flows under the terms provided in the Contracts and Operating Regulations, on pre-established dates for collection of commissions on the guaranteed balance; said commission is recognized as a service and not as a credit.

The business model refers to how the Institution administers or manages the loan portfolio for generating cash flows. That is, the business model determines if cash flows will proceed in obtaining contractual cash flows, from the sale of loan portfolio, or both.

(a) Classification of the portfolio by currency

As of December 31, 2023 and 2022, the classification of the loan portfolio in Stage 1, Stage 2 and Stage 3 by type of currency (valued in local currency), is analyzed as follows:

	2023			2022		
	Currency		Total	Currency		Total
	Local	Foreign		Local	Foreign	
Portfolio in Stage 1						
Business or commercial activity loans	\$ 13,819	\$ 34,669	\$ 48,488	\$ 9,229	\$ 40,341	\$ 49,570
Loans to credit institutions	150,345	5,166	155,511	129,807	4,035	133,842
Lons to government entities	16,858	1,282	18,140	17,015	1,466	18,481
Consumer loans	13	-	13	15	-	15
Housing loans	61	-	61	73	-	73
Total portfolio in Stage 1	\$ 181,096	\$ 41,117	\$ 222,213	\$ 156,139	\$ 45,842	\$ 201,981

	2023			2022		
	Currency		Total	Currency		Total
	Local	Foreign		Local	Foreign	
Portfolio in Stage 2						
Business or commercial activity loans	\$ 192	\$ 2,583	\$ 2,775	\$ 213	\$ 3,123	\$ 3,336
Loans to credit institutions	-	-	-	157	10	167
Loans to government entities	-	-	-	-	-	-
Consumer loans	1	-	1	1	-	1
Housing loans	1	-	1	2	-	2
Total portfolio in Stage 2	\$ 194	\$ 2,583	\$ 2,777	\$ 373	\$ 3,133	\$ 3,506

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Portfolio in Stage 3	2023			2022		
	Local	Foreign	Total	Local	Foreign	Total
Business or commercial activity loans	\$ 423	\$ -	\$ 423	\$ 427	\$ -	\$ 427
Loans to credit institutions	2,945	718	3,663	4,615	826	5,441
Loans to government entities	-	-	-	-	-	-
Consumer loans	4	-	4	3	-	3
Housing loans	6	-	6	5	-	5
Total portfolio in Stage 3	\$ 3,378	\$ 718	\$ 4,096	\$ 5,050	\$ 826	\$ 5,876

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

(b) Classification of loan portfolio by economic sector

Credit risk by stages, classified by economic sector and the percentage of concentration are analyzed as follows:

Stage 1	2023		2022	
	Amount	%	Amount	%
Federal Government	\$ -	0%	\$ -	0%
Decentralized agencies and state-owned companies	18,140	8%	18,481	9%
State productive companies	-	0%	-	0%
Full-service banking	70,507	32%	61,097	30%
Other public financing intermediaries	-	0%	-	0%
Other private financial intermediaries	85,004	38%	72,745	36%
Companies	48,488	22%	49,570	25%
Private parties	74	0%	88	0%
Total	\$ 222,213	100%	\$ 201,981	100%

Stage 2	2023		2022	
	Amount	%	Amount	%
Federal Government	\$ -	0%	\$ -	0%
Decentralized agencies and state-owned companies	-	0%	-	0%
State productive companies	-	0%	-	0%
Full-service banking	-	0%	-	0%
Other public financial intermediaries	-	0%	-	0%
Other private financial intermediaries	-	0%	167	5%
Companies	2,775	100%	3,336	95%
Private parties	2	0%	3	0%
Total	\$ 2,777	100%	\$ 3,506	100%

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Stage 3	2023		2022	
	Amount	%	Amount	%
Federal Government	\$ -	0%	\$ -	0%
Decentralized agencies and state-owned companies	-	0%	-	0%
State productive companies	-	0%	-	0%
Full-service banking	-	0%	-	0%
Other public financial intermediaries	-	0%	-	0%
Other private financial intermediaries	3,663	89%	5,441	93%
Companies	423	10%	427	7%
Private parties	10	0%	8	0%
Total	\$ 4,096	100%	\$ 5,876	100%

(c) Additional loan portfolio information

Annual weighted lending rates.

During 2023 and 2022, annual average weighted lending rates, were as follows:

	2023		2022	
	Currency		Currency	
	Local	Foreign	Local	Foreign
Commercial portfolio*	11.57%	7.91%	10.78%	6.56%
Consumer	6.70%	n.a.	5.65%	n.a.
Housing	6.98%	n.a.	5.28%	n.a.
Excluded	6.91%	n.a.	5.25%	n.a.

* Includes commercial, financial and government entities loans.

Restructured and renewed loans

As of December 31, 2023 and 2022, restructured loans are analyzed as follows:

	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Business or Commercial activity	\$ 10,954	\$ -	\$ -	\$ 10,954	\$ 12,454	\$ -	\$ -	\$ 12,454
Government	1,272	-	-	1,272	-	-	-	-
Consumer	2	-	-	2	3	-	-	3
Housing	6	-	-	6	6	-	-	6
Total	\$ 12,234	\$ -	\$ -	\$ 12,234	\$ 12,463	\$ -	\$ -	\$ 12,463

For years ended December 31, 2023 and 2022, accrued interest on restructured loans amounted to \$824 and \$807, respectively.

As of December 31, 2023 and 2022, the Institution does not report renewed loans.

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Portfolio in Stage 3

Below is an analysis of the portfolio with credit risk Stage 3 at December 31, 2023 and 2022, according to the term as from it was so considered:

2023	1 to 180 days	181 to 365 days	More than 365 days	Un-callable	Total
Commercial *	\$ -	\$ -	\$ 18	\$ 406	\$ 424
Other private FI	-	-	-	3,662	3,662
Consumer	-	-	-	4	4
Housing	-	-	-	6	6
	\$ -	\$ -	\$ 18	\$ 4,078	\$ 4,096

2022	1 to 180 days	181 to 365 days	More than 365 days	Un-callable	Total
Commercial *	\$ -	\$ 21	\$ -	\$ 406	\$ 427
Other private FI	2,276	-	-	3,165	5,441
Consumer	-	-	-	3	3
Housing	-	-	-	5	5
	\$ 2,276	\$ 21	\$ -	\$ 3,579	\$ 5,876

* Includes commercial, financial entities and government loans.

Below is an analysis of the portfolio with credit risk Stage 3 movements for years ended December 31, 2023 and 2022:

Movements	2023	2022
Balance at beginning of year	\$ 5,876	\$ 5,229
Settlements	(8,125)	(7,890)
Write-offs	-	-
Transfers from current to past-due portfolio	6,453	8,537
Foreign exchange fluctuation	(108)	-
Balance at end of year	\$ 4,096	\$ 5,876

As of December 31, 2023 and 2022, the past-due portfolio is comprised by 18 and 15 former employees, 1 and 1 companies, and 1 and 2 financial entities.

As of December 31, 2023 and 2022, interest on the past-due loan portfolio not recognized in results amounted to \$114 and \$184, respectively; such interests are recorded in memorandum accounts.

Impaired loan portfolio

As of December 31, 2023 and 2022, impaired commercial portfolio is analyzed below:

	2023			Allowance recorded
	Risk level		Total	
	D	E		
Stage 1	\$ 977	\$ -	\$ 977	\$ 285
Stage 3	-	423	423	423
Total	\$ 977	\$ 423	\$ 1,400	\$ 708

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	2022			
	Risk level			Allowance recorded
	D	E	Total	
Stage 1	\$ 8	\$ -	\$ 8	\$ 4
Stage 3	-	427	427	427
Total	\$ 8	\$ 427	\$ 435	\$ 431

During the year, transfers between the stages of portfolios with credit risk are shown below:

	2023		
	From Stage 1	From Stage 2	To Stage 3
Consumer loans	\$ 1	\$ -	\$ -
Housing loans	1	4	5
Total	\$ 2	\$ 4	\$ 5

Interests and commissions from the portfolio with credit risk as of December 31, 2023 and 2022, are comprised as follows:

	2023			2022		
	Interest	Commissions	Total	Interest	Commissions	Total
Business or commercial activity loans	\$ 4,128	\$ 591	\$ 4,719	\$ 2,682	\$ 7	\$ 2,689
Loans to credit institutions	15,711	41	15,752	7,230	64	7,294
Loans to government entities	1,601	-	1,601	184	-	184
Consumer loans	5	-	5	2	-	2
Housing loans	1	-	1	1	-	1
Total	\$ 21,446	\$ 632	\$ 22,078	\$ 10,099	\$ 71	\$ 10,170

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

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Portfolio in memorandum accounts:

Balances of the portfolio derecognized from assets in local currency which are recorded in memorandum accounts while collection management continues, are shown below:

	<u>2023</u>	<u>2022</u>
	<u>Local Currency</u>	<u>Local Currency</u>
Principal		
Companies	\$ -	\$ 575
Former employees	<u>1</u>	<u>-</u>
Total principal	\$ <u>1</u>	\$ <u>575</u>
Interest		
Companies	\$ -	\$ 12
Former employees	<u>1</u>	<u>-</u>
Total interest	\$ <u>1</u>	\$ <u>12</u>

For years ended December 31, 2023 and 2022, the recoveries of the loan portfolio derecognized from assets amounted to \$0.9 and \$0.5, respectively, which as recorded in the preventive allowance for credit risks in the statement of comprehensive income.

(d) Preventive allowance for credit risks

As of December 31, 2023 and 2022, as a result of the application of the rating methodology, the probability of default and loss severity of each group, obtained as weighted average of the exposure at default, are as follows:

	<u>2023</u>			<u>2022</u>		
<u>Type of portfolio</u>	<u>Probability of default</u>	<u>Severity of loss</u>	<u>Exposure at default</u>	<u>Probability of default</u>	<u>Severity of loss</u>	<u>Exposure at default</u>
Commercial	1.70%	44.88%	\$ 229,001	2.38%	44.88%	\$ 211,264
Mortgage	10.41%	17.67%	68	8.91%	21.27%	80
Consumer	27.04%	82.93%	17	19.83%	73.60%	19
Excluded	-	-	-	-	-	-

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

In accordance with the Provisions for Loan Portfolio Rating for Development Banking Institutions, the loan portfolio under the responsibility of the Federal Government and the one acquired with discount of development banking entities, is not subject to the creation of the preventive allowance for credit risks 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.

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As of December 31, 2023 and 2022, the credit rated loan portfolio and preventive allowance for credit risks, are analyzed as follows:

Credit rated loan portfolio 2023

Risk level	Business or commercial	Financial institutions	Government entities	Consumer	Housing	Total
A-1	\$ 44,643	\$ 145,299	\$ 18,990	\$ 1	\$ 56	\$ 208,989
A-2	1,530	6,462	-	5	3	8,000
B-1	-	2,698	-	1	-	2,699
B-2	265	969	-	1	-	1,235
B3	340	-	-	-	-	340
C1	-	-	-	2	2	4
C2	-	-	-	2	-	2
D	977	-	-	-	-	977
Stage 1	\$ 47,755	\$ 155,428	\$ 18,990	\$ 12	\$ 61	\$ 222,246
A1	\$ 2,775	\$ -	\$ -	\$ -	\$ -	\$ 2,775
C-1	-	-	-	-	-	-
C-2	-	-	-	-	1	1
E	-	-	-	1	-	1
Stage 2	\$ 2,775	\$ -	\$ -	\$ 1	\$ 1	\$ 2,777
C3	\$ -	\$ -	\$ -	\$ -	\$ 3	\$ 3
D	-	-	-	-	3	3
E	423	3,663	-	4	-	4,090
Stage 3	\$ 423	\$ 3,663	\$ -	\$ 4	\$ 6	\$ 4,096
Subtotal	\$ 50,954	\$ 159,091	\$ 18,990	\$ 17	\$ 68	\$ 229,119
Uncollected accrued interest						(33)
Total					\$	229,086
Exempted portfolio						
Federal Government						
Contingent collateral portfolio						97,333
Total portfolio						\$ 326,419

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Preventive allowance for credit risks of the credit risk loan portfolio rated in 2023

Risk level	Business or commercial	Financial institutions	Government entities	Consumer	Housing	Total
A-1	\$ 239	\$ 481	\$ 95	\$ -	\$ -	\$ 815
A-2	21	84	-	-	-	105
B-1	-	42	-	-	-	42
B-2	6	20	-	-	-	26
B3	12	-	-	-	-	12
C1	-	-	-	-	-	-
C2	-	-	-	-	-	-
D	285	-	-	-	-	285
Stage 1	\$ 563	\$ 627	\$ 95	\$ -	\$ -	\$ 1,285
A1	\$ 19	\$ -	\$ -	\$ -	\$ -	19
C-1	-	-	-	-	-	-
C-2	-	-	-	-	-	-
E	-	-	-	-	-	-
Stage 2	\$ 19	\$ -	\$ -	\$ -	\$ -	\$ 19
C2	\$ -	\$ -	\$ -	\$ -	\$ -	-
D	-	-	-	-	1	1
E	423	3,663	-	3	-	4,089
Stage 3	\$ 423	\$ 3,663	\$ -	\$ 3	\$ 1	\$ 4,090
Total	\$ 1,005	\$ 4,290	\$ 95	\$ 3	\$ 1	\$ 5,394
Additional allowance recognized by the Banking Commission						3,913
Allowance for allocation of lines of guarantees						9,926
Total allowance						\$ 19,233

2022		Assessed portfolio					Total
Risk level	Business or commercial	Financial institutions	Government entities	Consumer	Housing	Total	
A-1	\$ 38,409	\$ 126,065	\$ 19,362	\$ 3	\$ 59	\$ 183,898	
A-2	10,030	6,367	-	2	11	16,410	
B-1	-	1,134	-	2	-	1,136	
B-2	250	183	-	-	1	434	
B3	-	-	-	1	-	1	
C1	-	93	-	1	2	95	
C2	-	-	-	5	-	5	
D	8	-	-	-	-	8	
E	-	-	-	1	-	1	
Stage 1	\$ 48,697	\$ 133,842	\$ 19,362	\$ 15	\$ 73	\$ 201,988	
A-1	\$ 3,336	\$ -	\$ -	\$ -	\$ -	3,336	
A-2	-	-	-	-	-	-	
B-3	-	167	-	-	-	167	
C-1	-	-	-	-	1	1	
C-2	-	-	-	-	1	1	
D	-	-	-	-	-	-	
E	-	-	-	1	-	1	
Stage 2	\$ 3,336	\$ 167	\$ -	\$ 1	\$ 2	\$ 3,506	
C3	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3	\$ 3	
D	-	-	-	-	2	2	
E	427	5,441	-	3	-	5,871	
Stage 3	\$ 427	\$ 5,441	\$ -	\$ 3	\$ 5	\$ 5,876	
Uncollected accrued interest						\$ (9)	
Total	\$ 52,460	\$ 139,450	\$ 19,362	\$ 19	\$ 80	\$ 211,361	
Exempted portfolio						-	
Federal Government						-	
Contingent collateral portfolio						\$ 89,010	
Total portfolio						\$ 300,371	

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2022										
Risk level	Business or commercial	Financial institutions	Government entities	Consumer	Housing	Total				
A-1	\$ 242	\$ 397	\$ 97	\$ -	\$ -	\$ 736				
A-2	112	62	-	-	-	174				
B-1	-	20	-	-	-	20				
B-2	6	4	-	-	-	10				
B-3	-	-	-	-	-	0				
C1	-	9	-	-	-	9				
C2	-	-	-	1	-	1				
D	3	-	-	-	-	3				
E	-	-	-	-	-	-				
Stage 1	\$ 363	\$ 492	\$ 97	\$ 1	\$ -	\$ 953				
A1	\$ 23	-	-	-	-	\$ 23				
A2	-	-	-	-	-	-				
B3	-	8	-	-	-	8				
C-1	-	-	-	-	-	-				
C-2	-	-	-	-	-	-				
D	-	-	-	-	-	-				
E	-	-	-	-	-	-				
Stage 2	\$ 23	\$ 8	\$ -	\$ -	\$ -	\$ 31				
C3	\$ -	-	-	-	-	-				
D	-	-	-	-	1	1				
E	427	4,649	-	3	-	5,079				
Stage 3	\$ 427	\$ 4,649	\$ -	\$ 3	\$ 2	\$ 5,080				
Total	\$ 813	\$ 5,149	\$ 97	\$ 4	\$ 2	\$ 6,064				
Additional allowance recognized by the Banking Commission						735				
Allowance for allocation of lines of guarantee						8,500				
Total allowance						\$ 15,299				

Below is an analysis of the movements of the preventive allowance for credit risks as of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	\$ 15,298	\$ 12,635
Provisions charged to the year's results	9,365	39,739
Uses, write-offs and others	(668)	(4,800)
Allowance cancellations	(4,618)	(32,224)
Foreign exchange fluctuation	(144)	(52)
Balance at end of year	<u>\$ 19,233</u>	<u>\$ 15,298</u>

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Increases / (releases) by loan type and stage for 2023 are shown below:

Rating	Business or commercial	Financial entities	Government entities	Consumer	Housing	Additional	Other	Guarantees	Total
Stage 1	\$ 250	\$ 136	\$ (1)	\$ -	\$ -	\$ 3,177	\$ (18)	\$ -	\$ 3,544
Stage 2	(1)	(8)	-	-	-	-	-	-	(9)
Stage 3	3	(229)	-	1	-	-	-	-	(225)
n.a.	-	-	-	-	-	-	-	1,437	1,437
Total	\$ 252	\$ (101)	\$ (1)	\$ 1	\$ -	\$ 3,177	\$ (18)	\$ 1,437	\$ 4,747
							Uses, write-offs and other		(668)
							Foreign exchange fluctuation		(144)
							Total	\$	3,935

Increases / (releases) by type and stage for 2022, are shown below:

Rating	Business or commercial	Financial entities	Government entities	Consumer	Housing	Guarantees	Additional	Total
Stage 1	\$ (4,552)	\$ 41	\$ (1,547)	\$ (2)	\$ (1)	\$ (5)	\$ -	\$ (6,066)
Stage 2	25	-	14	-	-	-	-	39
Stage 3	5,226	-	4,655	3	2	-	-	9,886
n.a.	-	-	-	-	-	-	3,657	3,657
Total	\$ 699	\$ 41	\$ 3,122	\$ 1	\$ 1	\$ (5)	\$ 3,657	\$ 7,516
							Uses, write-offs and other	(4,800)
							Foreign exchange fluctuations	(52)
							Total	\$ 2,664

As of December 31, 2023 and 2022, the preventive allowance for credit risks set aside by the Institution includes \$19,233 and \$15,298, respectively, recorded in the consolidated statement of financial position for the year.

The preventive allowance for credit risks on interests from the loan portfolio with credit risk in Stage 3 amounts to \$17 for year ended December 31, 2023.

As of December 31, 2023 and 2022, loan allowances represent 8.4% and 7.2%, respectively, of the total portfolio and cover 4.7 and 2.6 times, respectively, the loan portfolio with credit risk in Stage 3.

In 2023 and 2022, the Institution applied the balance of 5 and 7 borrowers, respectively, against the preventive allowance for credit risks in an amount of \$668 and \$4,800, respectively.

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Factoring to Maturity

In 2021, Nafin and financial intermediaries were summoned to participate in the Production Chain in the modality of Factoring to Maturity for an amount required of lines of up to \$20,000.

Nafin participation is of up to \$5,000 million pesos and applicable interest rates are the following:

- Nafin Funding Rate = Cetes 182 days of the transaction date plus (+) 0.50%.
- Spread rate: 1.60%.

The rate scheme is particular to the Productive Chain and is not for general application, which allows customer supplier to collect 100% of its billings through a Nafin platform.

Collection of commissions for the Productive Chain at maturity is made with a 180-day periodicity.

Income received by the Institution is through commission in accordance with the product structure, which is recognized as advance payment and is deferred during the life of the transaction.

As of December 31, 2023 and 2022, the balance of the portfolio for factoring transactions, is the following:

	<u>2023</u>	<u>2022</u>
Factoring line without recourse	\$ 5,715	\$ 4,885
Commissions collected in advance	\$ 10	\$ 9
Commissions accrued in results	\$ 133	\$ 114

10. OTHER ACCOUNTS RECEIVABLE, NET

As of December 31, 2023 and 2022, other accounts receivable are shown below:

	<u>2023</u>	<u>2022</u>
Loans to personnel of the Institution	\$ 2,340	\$ 2,247
Debtors for settlement of transactions	2,058	93
Other debtors	6,990	6,168
Debtors for commissions on current transactions	65	71
Debtors for collateral pledged in cash	<u>4,554</u>	<u>9,021</u>
	16,007	17,600
Allowance for write-offs of other accounts receivable	<u>(6,827)</u>	<u>(5,942)</u>
Total	<u>\$ 9,180</u>	<u>\$ 11,658</u>

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As of December 31, 2023 and 2022, the allowance for write-offs of other accounts receivable is shown below:

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	\$ (5,942)	\$ (5,633)
Increases	(28)	(12)
Applications	5	2
Recoveries	7	1
Allowance for slippage of foreign currency	3	1
Increase subsidiaries allowance	<u>(872)</u>	<u>(301)</u>
Balance at end of year	<u>\$ (6,827)</u>	<u>\$ (5,942)</u>

11. FORECLOSED ASSETS

As of December 31, 2023 and 2022, foreclosed assets are analyzed as follows:

	<u>2023</u>	<u>2022</u>
Property (1)	\$ 825	\$ 681
Property, securities and foreclosed rights	<u>25</u>	<u>28</u>
	850	709
Allowances	<u>(850)</u>	<u>(709)</u>
	<u>\$ -</u>	<u>\$ -</u>

For years ended 2023 and 2022, properties were received for \$144 and \$501, respectively, over which an allowance for holding of foreclosed assets was created equivalent to 100% of the value of such assets.

	<u>2023</u>	<u>2022</u>
Beginning balance	\$ -	\$ -
Foreclosures and payments in cash	144	501
Estimates and allowances	(144)	(501)
Sales	<u>-</u>	<u>-</u>
Ending balance	<u>\$ -</u>	<u>\$ -</u>

The reception of properties was carried out under the payment in cash modality, as follows:

- On March 27, 2023, a property situated in Puerto Peñasco, State of Sonora, was received for an amount of \$80.
- On June 7, 2023, two properties situated in Ciudad Victoria and Altamira, State of Tamaulipas, were received for an amount of \$31 and \$3, respectively.
- Lastly, on August 10, 2023, the last property situated in Iztapalapa, Mexico City, was received for an amount of \$30.

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(1) During year 2023, a variation was obtained for \$3 in property, securities and foreclosed right resulting from the foreign exchange slippage.

Following, an analysis of the movements of the allowance for loss in value as of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	\$ (709)	\$ (247)
Increase to allowances of foreclosed assets	<u>(141)</u>	<u>(462)</u>
Balance at end of year	<u>\$ (850)</u>	<u>\$ (709)</u>

12. PROPERTY, FURNITURE AND EQUIPMENT, NET

As of December 31, 2023 and 2022, property, furniture and equipment is summarized as follows:

	<u>2023</u>	<u>2022</u>
Land	\$ 53	\$ 53
Buildings	2,256	2,227
Furniture and equipment	243	239
Construction in progress	-	15
Computer equipment	63	45
Other property, furniture and equipment	<u>32</u>	<u>32</u>
	2,647	2,611
Less – Accumulated depreciation	<u>(1,243)</u>	<u>(1,209)</u>
	<u>\$ 1,404</u>	<u>\$ 1,402</u>

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

<u>Concept</u>	<u>Useful life</u>
Building	53 to 70 years
Furniture and equipment	10 years
Computer equipment	3 to 4 years

Depreciation charged to results for years ended December 31, 2023 and 2022, amounted to \$39 and \$41, respectively.

As of December 31, 2023 and 2022, there was no effect from impairment of property, leasehold improvements and adaptations.

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As of December 31, 2023 and 2022, the percentages of depreciation applied by the 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	Percentage of depreciation
Building	2%
Furniture and equipment	10%
Computer equipment	30%
Installation expenses	5%

13. PERMANENT INVESTMENTS

As of December 31, 2023 and 2022, permanent investments are comprised as follows:

	2023	2022
Corporación Andina de Fomento	\$ 2,255	\$ 2,559
Shares of other entities	372	399
Investment in subsidiary companies	39	36
Fideicomiso Capital Emprendedor	3	3
	\$ 2,669	\$ 2,997

As of December 31, 2023 and 2022, the movement of permanent investments is shown below:

	2023	2022
Balance at beginning of year	\$ 2,997	\$ 3,062
Equity method in results of unconsolidated subsidiaries	17	39
Exchange translation	(364)	(144)
Investment acquisition	5	51
Investment disposal	-	-
Applications	14	(11)
	\$ 2,669	\$ 2,997

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14. DEPOSIT FUNDING

As of December 31, 2023 and 2022, the deposit funding caption is analyzed as follows:

	2023			2022		
	Currency			Currency		
	Local	Foreign	Total	Local	Foreign	Total
Term deposits:						
Money market	\$ 174,448	\$ 14,592	\$ 189,040	\$ 137,787	\$ 9,281	\$ 147,068
Debt securities issued:						
Stock certificates	96,736	-	96,736	72,805	-	72,805
Bank bond	-	25,415	25,415	-	36,376	36,376
Stock notes	-	-	-	-	2,217	2,217
	<u>96,736</u>	<u>25,415</u>	<u>122,151</u>	<u>72,805</u>	<u>38,593</u>	<u>111,398</u>
Total deposit funding	\$ 271,184	\$ 40,007	\$ 311,191	\$ 210,592	\$ 47,874	\$ 258,466

As of December 31, 2023 and 2022, Time deposits from money market according to maturity are comprised as follows:

	2023	2022
Less than one year	\$ 188,191	\$ 145,858
One and five years	-	-
More than five years	<u>374</u>	<u>374</u>
	188,565	146,232
Accrued unpaid interest	<u>475</u>	<u>836</u>
Total	\$ <u>189,040</u>	\$ <u>147,068</u>

As of December 31, 2023 and 2022, the average weighted interest rates and the average terms in days on Time deposits from money market are as follows:

Time deposits from money market

Instrument	2023		
	Average rate	Average term in days	Amount
Promissory notes with yield at maturity	11.13	11.36	\$ 149,988
Fixed Time deposits	-	112.00	24,000
Fixed Time deposits in euros	3.00	14.00	189
Certificates of deposit in foreign currency (valued)	4.78	13.36	14,388
Accrued unpaid interest	-	-	<u>475</u>
Total			\$ <u>189,040</u>

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Instrument	2022		
	Average rate	Average term in days	Amount
Promissory notes with yield at maturity	10.30	13	\$ 136,959
Certificates of deposit in foreign currency (valued)	3.53	15	9,273
Unpaid accrued interest	-	-	836
Total			\$ 147,068

15. DEBT SECURITIES ISSUED IN THE COUNTRY

As of December 31, 2023 and 2022, the Institution has issued stock certificates with par value of one hundred pesos each, under the financial program authorized by the Ministry of Finance and Public Credit, as shown below:

Issuance	Maturity	Securities (millions)	Par Value (Pesos)	Interest rate	2023	2022
Cebures settled in Indeaval						
22/11/2013	08/03/2024	30.00	100	6.55	\$ 3,000	\$ 3,000
14/03/2014	08/03/2024	4.75	100	6.55	475	475
14/03/2014	08/03/2024	42.75	100	6.55	4,275	4,275
06/06/2014	08/03/2024	40.00	100	6.55	4,000	4,000
26/09/2014	08/03/2024	32.50	100	6.55	3,250	3,250
17/04/2015	07/03/2025	60.00	100	6.15	6,000	6,000
24/08/2015	07/03/2025	40.00	100	6.15	4,000	4,000
12/04/2017	25/09/2026	12.50	100	6.2	1,250	1,250
02/05/2018	25/09/2026	25.00	100	6.2	2,500	2,500
26/07/2019	13/07/2029	27.20	100	7.92	2,720	2,720
02/07/2021	28/06/2021	13.85	100	11.42	1,385	1,385
02/07/2021	26/06/2026	11.15	100	11.48	1,115	1,115
02/07/2021	20/06/2026	75.00	100	7.35	7,500	7,500
22/11/2021	19/11/2024	22.00	100	11.43	2,200	2,200
22/11/2021	17/11/2026	13.00	100	11.45	1,300	1,300
22/11/2021	10/11/2031	65.00	100	7.79	6,500	6,500
19/08/2022	15/08/2025	50.23	100	11.5	5,023	5,023
19/08/2022	13/08/2027	10.07	100	11.51	1,007	1,007
19/08/2022	06/08/2032	32.74	100	9.04	3,274	3,274
15/05/2023	06/05/2030	19.57	100	9.08	1,957	-
15/05/2023	06/05/2023	35.10	100	9.08	3,510	-
15/05/2023	11/05/2026	45.33	100	11.55	4,533	-
04/08/2023	21/11/2025	45.00	100	11.53	4,500	-
04/08/2023	12/02/2027	30.00	100	11.56	3,000	-
08/08/2023	21/11/2025	15.23	100	11.53	1,523	-
01/12/2023	12/02/2027	67.60	100	11.56	6,760	-
					86,557	60,774
Premium or discount on placement					(193)	(249)
Accrued interest payable					1,025	1,006
					\$ 87,389	\$ 61,531

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<u>Issuance</u>	<u>Maturity</u>	<u>Securities (millions)</u>	<u>Par Value (Pesos)</u>	<u>Interest rate</u>	<u>2023</u>	<u>2022</u>
Cebures settled in Euroclear and Clearstream						
27/04/2016	25/09/2026	50	100	6.2	\$ 5,000	\$ 5,000
25/10/2016	25/09/2026	42	100	6.2	4,200	4,200
Premium or discount on placement					-	-
Accrued interest payable					147	58
Subtotal					9,347	9,258
Green bond	02/09/2016	01/09/2023	99.99	6.05	-	2,000
Accrued interest payable					-	16
					-	2,016
Total					\$ 96,736	\$ 72,805

16. DEBT SECURITIES ISSUED ABROAD

Bank bonds

As of December 31, 2023 and 2022, bank bonds balance amounts to \$25,415 and \$36,376, respectively. This caption comprises current balances of securities placed abroad by the Institution, as follows:

2023						
<u>Currency</u>	<u>Securities</u>	<u>Balance in original currency in millions</u>	<u>Interest</u>	<u>% average rate</u>	<u>Balance in local currency</u>	<u>Term</u>
US dollars						Less than one year
	110	1,475	23	5.3665	25,415	
					25,415	
2022						
<u>Currency</u>	<u>Securities</u>	<u>Balance in original currency in millions</u>	<u>Interest</u>	<u>% average rate</u>	<u>Balance in local currency</u>	<u>Term</u>
US dollars						Less than one year
	114	1,852	12	4.2467	36,376	
					36,376	

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Stock notes

As of December 31, 2023 and 2022, the caption has a balance of \$0 and \$2,217, respectively. The year 2022 balance is comprised by Yens in the amount of Y15,000, at an average rate of 0.66%, 5-year term, with a value in local currency of \$2,217, which includes interest for \$2.

17. INTERBANK LOANS AND LOANS FROM OTHER AGENCIES

As of December 31, 2023 and 2022, interbank loans and loans from other entities are mainly made up of loans from financial institutions abroad at current market rates, as follows:

	<u>2023</u>	<u>2022</u>
Multinational and government bodies		
World Bank	\$ -	\$ 1,512
Mexican Central Bank	11,318	11,318
Inter-American Development Bank	4,462	3,853
Other	<u>5,600</u>	<u>4,218</u>
	<u>21,380</u>	<u>20,901</u>
Banking institutions	7,310	7,703
Accrued unpaid interest	2,701	1,385
Other loans	<u>18,808</u>	<u>11,299</u>
	<u>28,819</u>	<u>20,387</u>
	<u>\$ 50,199</u>	<u>\$ 41,288</u>

As of December 31, 2023 and 2022, maturity terms of less than one year amount to \$39,264 and \$14,827, respectively.

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As of December 31, 2023, interbank loans and loans from other entities, in accordance with their enforceability, are comprised as follows:

Financial entity	<u>Average rate</u>	<u>Average term to maturity</u>	<u>Millions in the original currency</u>	<u>Local currency</u>
Due on demand				
Local currency	11.15%	3 days	14,757	14,757
Foreign currency	11.15%	3 days	239	4,051
Total				18,808
Short-term				
Pesos				
Banco de México (f)	7.75%	29 days	11,318	11,318
US dollars:				
Commercial banking				
Kreditanstalt Fur Wiederaufbau (kfw) (d)	3.04%	120 days	20	347
Corporación Andina de Fomento (CAF) (b)	5.63%	166 days	180	3,054
The Bank of Nova Scotia (c)	5.90%	171 days	146	2,468
NF CTF BIRF 98062 Program for Substitution of Electrical Appliances	0.75%	240 days	5	85
2631 TC ME Program for Renewable Energy Financing	0.75%	120 days	7	119
European Investment Bank	16.97%	300 days	21	364
Interest				2,701
Total				20,456
Long-term				
US dollars:				
Commercial banking				
Kreditanstalt fur wiederaufbau (kfw) (d)	3.04%	9,844 days	230	3,901
NF CTF BIRF 98062 Program for Substitution of Electrical Appliances	0.75%	2,450 days	30	509
2631 TC ME Program for Financing of Renewable Energies	0.75%	3,106 days	56	950
5434 OC-ME Global Credit Program for Defense of the Productive Framework (a)	6.32%	8,659 days	200	3,393
European Investment Bank	16.97%	13,437 days	129	2,182
Total				10,935
Interest				-
Total				10,935
Total loans				\$ 50,199

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As of December 31, 2022, interbank loans and from other entities, in accordance with their enforceability, are comprised as follows:

Financial entity	Average rate	Average rate to maturity	Millions in the original currency	Local currency
Due on demand				
Local currency	5.52	3 days	11,299	\$ 11,299
Foreign currency	-	-	-	-
Total				11,299
Short-term				
Pesos				
-	-	-	-	-
US dollars:				
Commercial banking				
Kreditanstalt Fur Wiederaufbau (kfw)	3.13	330 days	10	188
Corporación Andina de Fomento (CAF)	5.22	17 days	135	2,634
Instituto de Crédito Oficial (ICO)	1.25	30 days	-	1
NF IDB Cclip 2226 OC-ME Pemex Pymes Development	4.19	5 days	5	98
NF CTF BIRF 98062 Progra for Replacement of Electrical Appliances	0.75	8 days	5	98
N.F. IDB Cclip 2843/OC-ME Prog Cred Line Condiciona ME-X1010	4.19	4 days	5	98
2631 TC ME Program for Financing of Renewable	0.75	6 days	7	136
NF IDB 3237/OC-ME Prog for Financing Promotion of Co-generation	4.19	5 days	5	98
European Investment Bank	19.51	365 days	6	112
Interest				65
Total				\$ 3,528
Long-term				
Local currency:				
Banxico	4.39	394 days	11,318	\$ 11,318
US dollars:				
Commercial banking				
Kreditanstalt fur wiederaufbau (kfw)	3.13	19,530 days	133	2,589
NF IDB Cclip 2226 OC-ME Pemex Pymes Development (e)	0.75	4,559 days	58	1,122
NF CTF BIRF 98062 Program for Replacement of Electrical Appliances	0.75	2,815 days	35	683
2631 TC ME Program for Financing of Renewable Energies	0.75	3,471 days	63	1,229
N.F. IDB Cclip 2843/OC-ME Prog Cred Line Condiciona ME-X1010 (e)	4.19	5,614 days	73	1,414
NF IDB 3237/OC-ME Prog for Financing Promotion of Co-generation (e)	4.19	6,376 days	83	1,609
5434 OC-ME Global Credit Program for Defense of Productive Framework	4.19	6,376 days	83	780
European Investment Bank	19.51	13,802 days	225	4,397
Total				25,141
Interest				1,320
Total				26,461
Total loans				\$ 41,288

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(a) On September 19, 2022, the Institution entered into an agreement with the Inter-American Development Bank to finance the implementation of the Global Credit Program for the Defense of the Productive Network and the Economic Recovery, from which the following is to be highlighted:

1. The Inter-American Development Bank grants Nacional Financiera a loan in the amount of up to two hundred million dollars (US\$200).
2. The Original Disbursement Term shall be of two years as from the effective date upon execution of the agreement. The final amortization date is the date corresponding to twenty-five years as from the effective date upon execution of the agreement.

As of December 31, 2023, the above indicated credit line was used in full within the term stated in the contract (2 years).

(b) Two short-term loan agreements were entered into with Corporación Andina de Fomento during 2023:

1. The first one dated September 25, 2023, starting date September 27, 2023, and one settlement on March 22, 2024 for an amount of eighty million dollars (US\$80).
2. The second one entered into on December 13, 2023, starting date December 15, 2023 and one settlement on June 14, 2024, for an amount of 100 million dollars (US\$100).

(c) Also a loan agreement was entered into with The Bank of Nova Scotia on December 20, 2023, starting date on December 22, 2023 and one settlement on June 16, 2024, for an amount of one hundred and forty six million dollars (US\$146).

(d) During 2023, loans were entered into with Kreditanstalt Fur Wiederaufbau (KfW), which were identified for the projects listed below:

<u>Foreign banks</u>								
<u>Project</u>	<u>Date of signing</u>	<u>Amortization starting date</u>	<u>Settlement date</u>	<u>Balance currency of origin</u>	<u>Rate</u>	<u>Currency</u>	<u>Exchange rate</u>	<u>Balance local currency</u>
27583/Program for energy efficiency for small and medium size companies	02/12/2015	30/12/2020	30/12/2025	19	1.8800	USD	16.96	\$ 327
28987/Program for energy efficiency	18/12/2018	15/05/2024	15/05/2029	45	5.6175	USD	16.96	769
29176/Program for Promotion of Renewable Energies	18/12/2018	15/05/2024	15/05/2034	68	5.7975	USD	16.96	1,154
28989/Program for Forestly Investment Proinfor	18/12/2018	15/05/2024	15/05/2029	4	5.0975	USD	16.96	83
30503/Program for Micro, Small and Medium Size Companies	18/12/2018	15/05/2027	15/05/2032	114	6.1475	USD	16.96	1,915
			TOTAL	250				\$ 4,248

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- (e) The Ministry of Credit and Public Finance requested carrying out the early maturity of the following loans with the Inter-American Development Bank (IDB):

Early maturity was carried out on May 15, 2023 of loan N.F.IDB CCLIP 2843/OC ME Condiciona Line of Credit Program ME-X1010.

Early maturity was carried out on June 15, 2023 of loans NF IDB Cclip 226 OC-ME Pemex Pymes Development and NF IDB 3237/OC-ME Financing Program Promotion of Co-generation in Mexico.

- (f) On February 11, 2021, the Institution entered with the Mexican Central Bank: a simple credit agreement and an Irrevocable Warranty Trust contract Number 10667 – Foreign Trade National Bank (BANCOMEXT for the acronym in Spanish), as trust officer in which the Mexican Central Bank through the SICA system grants a financing for \$11,384 with a maturity date for principal and interest of up to 36 months, which interest rate shall be the equivalent of the one-day interbank average rate the Mexican Central Bank Governing Board has determined as the objective rate for purposes of monetary policy, during each day during the life of the loan. The destination is directed to the granting of financing to the micro, small and medium size company MiPymes directly, or, indirectly through other financial entities (First and Second tier).

Said financing was initially guaranteed through the assignment of collection rights of the eligible credit portfolio of Banco Scotiabank Inverlat, S.A., I.B.M., recognized in Irrevocable Warranty Trust Number 10667 in favor of the Mexican Central Bank. The value of the guarantees is adjusted for the discount factors that Mexican Central Bank has determined and shall cover in full, both principal amount as well as estimated interests and any other agreed expense, in conformity with established rules.

The assets of the Irrevocable Warranty Trust Number 10667 as of December 31, 2023, is fully integrated by the portfolio collection rights for \$16,278 of Banco Scotiabank Inverlat, S.A., I.B.M., and by negotiable government securities detailed below and recognized in investments of restricted negotiable instruments. Said financing contains the following guarantees in debt securities:

Guarantees in debt securities

As of December 31, 2023, guarantees in debt securities are as follows:

<u>Date</u>	<u>TV</u>	<u>Issuer</u>	<u>Series</u>	<u>Securities</u>	<u>Acquisition amount</u>	<u>Valuation</u>	<u>Amount valued</u>
Dec. 31, 2023	LD	Bondes	240425	17,300	100	1	\$ 1,731
Total							<u>\$ 1,731</u>

As of December 31, 2022, guarantees in debt securities are as follows:

<u>Date</u>	<u>TV</u>	<u>Issuer</u>	<u>Series</u>	<u>Securities</u>	<u>Acquisition amount</u>	<u>Valuation</u>	<u>Amount valued</u>
Dec. 31, 2022	LD	Bondes	230330	2,800	100	2	\$ 282
Dec. 31, 2022	LD	Bondes	240425	6,000	100	4	<u>602</u>
Total							<u>\$ 884</u>

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Account 'Credits obtained pending drawdown' (Note 23, Other memorandum accounts) represent lines of credit granted to the Institution unused at the closing of the year, as detailed as follows:

	<u>2023</u>	<u>2022</u>
Kreditanstalt Fur Wiederaufbau Frankfurt	\$ 1,097	\$ 670
Mexican Central Bank	181	208
Inter-American Development Bank	<u>2,447</u>	<u>894</u>
	<u>\$ 3,725</u>	<u>\$ 1,772</u>

Credit contracts establish different to-do and no-to-do obligations for the execution of projects to be financed, among them: maintain financial management systems acceptable and reliable; maintain internal controls to ensure that project resources are used for the purposes of the contract; retain documents and records of the project for a given period; report on the execution progress of the projects as well as the occurrence of any default of established commitments in the contract; and allow the inspection of the project at any point in time, the installations, the equipment and systems, and documents and records that are deemed relevant to know.

18. OTHER ACCOUNTS PAYABLE

As of December 31, 2023 and 2022, this caption is comprised as shown below:

	<u>2023</u>	<u>2022</u>
Creditors for collateral received in cash	\$ 2,378	\$ 971
Sundry creditors	2,372	659
Clearing accounts	4,421	245
Provisions for other concepts	364	270
Guarantee deposits	<u>3</u>	<u>3</u>
Total	<u>\$ 9,538</u>	<u>\$ 2,148</u>

19. EMPLOYEE BENEFITS

a) Defined contribution for 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.

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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 sub accounts, which are jointly identified as the employee's individual account.

The amount of the contributions for the years ended December 31, 2023 and 2022, amounted to \$43 and \$29, respectively.

As of December 31, 2023 and 2022, the Defined Contribution Plan assets amount to \$316 and \$273, and are invested in an irrevocable trust set up in the Institution.

b) Defined benefit retirement plan

Moreover, General Labor Conditions (GLC) for those employees who reach 65 years of age and complete 30 years of service will be entitled to a retirement annuity. Likewise, upon reaching 65 years of age with 5 years of seniority, employees will be entitled to receive a monthly annuity, which 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 transitory articles of the GLCs dated August 12, 1994, set forth those employees who joined the Institution prior to the abovementioned 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 GLCs.

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.

Transitory Article 5, paragraph a) of the GLCs, 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, to be withheld by the Institution.

The net period cost for the year ended December 31, 2023 and 2022, amounts to \$929 and \$891, respectively, including the effect of other post-retirement benefits. The estimated net period cost for the year 2024 amounts to \$764.

As of December 31, 2023 and 2022, the plan assets of the fund for labor obligations amounted to \$7,263 and \$7,169, respectively, and is invested in an irrevocable trust set up in the Institution. The net cost for the period recognized by the Institution for retirement plans and seniority premium, amounted to \$72 and \$47, respectively.

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As of December 31, 2023 and 2022, plan assets related to “Other post-retirement benefits” amount to \$17,014 and \$15,298, respectively. The net period cost recognized in the consolidated statements of comprehensive income of the Institution amounted to \$856 and \$845, respectively.

As of December 31, 2023 and 2022, the plan assets of the fund for labor obligations are invested in the following securities:

<u>Types of investments in the fund and concentration thereof</u>	<u>2023</u>	<u>2022</u>
Government securities	36.27%	37.48%
Bank securities	0.23%	0.28%
Other debt securities	63.50%	62.24%
Total	100.00%	100.00%

As of December 31, 2023 and 2022, from the total plan assets, 20.64% 22.04% , respectively, are invested in Federal Government Development Bonds; 1.22% and 0.00%, respectively, in Treasury Certificates of the Federation; 14.41% and 15.43%, respectively, in Bonds of the Institute for the Protection of Bank Savings; 0.23% and 0.28%, respectively, in term investments with yield payable at maturity and investment companies of securities issued by Credit Institutions ; 63.50% and 62.24%, in stock certificates and investment companies, securities issued by Credit Institutions and private sector companies with high credit rating.

As of December 31, 2023 and 2022, the liability for employee benefits, is comprised as follows:

Employee benefits:	<u>2023</u>	<u>2022</u>
Institution	\$ 2,055	\$ 2,862
CMIC	2	2
Operadora de Fondos	18	13
Plaza Insurgentes	1	1
Total	\$ 2,076	\$ 2,878

The summary of actuarial calculations of the Institution without subsidiaries as of December 31, 2023, is the following:

<u>Concept</u>	<u>2023</u>			
	<u>Pension</u>	<u>Seniority Premium</u>	<u>Other retirement benefits</u>	<u>Financial cost of credits</u>
Accounting policy for recognition of losses and gains				
	<u>Deferred amortization</u>			
General benefits description	<u>According to general labor conditions</u>			
Obligation for acquired benefits	\$ 7,509	\$ 4	\$ 12,034	\$ 4,032

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Reconciliation between the value of Defined Benefit Obligations (DFO) and Fair Value of Plan Assets (FVPA) with the Net Liability for Defined Benefits (NLDB) or Net Assets for Defined Benefits (NADF)

2023				
Concept	Pension	Seniority Premium	Other retirement benefits	Financial cost of credits
Net assets for defined benefits				
Obligation for defined benefits	\$ (7,639)	\$ (43)	\$ (14,972)	\$ (4,215)
Fair value of plan assets	7,233	30	13,151	3,863
Financial situation of the obligation	(406)	(13)	(1,821)	(352)
Remeasurements pending recognition	114	1	248	79
Net asset (liability) for defined benefits	(292)	(12)	(1,573)	(273)
Amortization	21	-	74	-
Total net asset (liability) for defined benefits	\$ (271)	\$ (12)	\$ (1,499)	\$ (273)

2023				
Concept	Pension	Seniority Premium	Other retirement benefits	Financial cost of credits
(Liability) assets for defined benefits				
Net at beginning of period	\$ 341	\$ 14	\$ 2,898	\$ 681
Net cost for the period	67	5	725	131
Contributions made	(67)	(5)	(725)	(131)
Remeasurements of liability (asset) recognized in OCI	(49)	(2)	(1,325)	(408)
Net (liability) asset for defined benefits (NLDF) / (NADF)	292	12	1,573	273
Restatement	(21)	-	(74)	-
Total net assets (liabilities) for defined benefits	\$ 271	\$ 12	\$ 1,499	\$ 273
Net cost for the period				
Labor cost	\$ 7	\$ 3	\$ 222	\$ 9
Financial cost	661	3	1,316	386
Return on assets	(633)	(2)	(1,082)	(329)
Recycling of remeasurements	32	1	269	65
Net cost for the period	\$ 67	\$ 5	\$ 725	\$ 131

Remeasurements of liabilities (assets) for Net Defined Benefits

Defined benefits obligations	\$ 7,639	\$ 42	\$ 14,972	\$ 4,215
Estimated obligations for defined benefits	(7,503)	(42)	(15,707)	(4,407)
Actuarial (gains) losses on obligations (AGLO)	\$ 136	\$ -	\$ (735)	\$ (192)

2023				
Concept	Pension	Seniority Premium	Other retirement benefits	Financial cost of credits
Fair value of plan assets	\$ (7,233)	\$ (30)	\$ (13,151)	\$ (3,863)
Estimated value of plan assets	7,194	29	13,078	3,791
(Gains) losses on return of plan assets (GLRPA)	(39)	(1)	(73)	(72)
Remeasurement for the period to be recognized in OCI	\$ 97	\$ (1)	\$ (808)	\$ (264)
Average remaining labor life (ARLL)	10.33	11.01	10.33	10.33

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The summary of actuarial calculations of the Institution without subsidiaries as of December 31, 2022, is the following:

2022				
Concept	Pension	Seniority Premium	Other retirement benefits	Financial cost of credits
Accounting policy for recognition of losses and gains				
	Deferred amortization			
General benefits description				
	According to general labor conditions			
Obligations for acquired benefits	\$ 7,365	\$ 4	\$ 12,207	\$ 4,172
Net assets for defined benefits				
Obligation for defined benefits	\$ (7,487)	\$ (38)	\$ (14,538)	\$ (4,339)
Fair value of plan assets	7,147	24	11,639	3,659
Financial situation of the obligation	(341)	(14)	(2,899)	(680)
Remeasurements pending recognition	257	1	542	178
Net asset (liability) for defined benefits	(84)	(13)	(2,357)	(502)
Restatement	20	-	74	-
Total net asset (liability) for defined benefits	\$ (64)	\$ (13)	\$ (2,283)	\$ (502)
Concept	Pension	Seniority Premium	Other retirement benefits	Financial cost of credits
(Liability) asset for defined benefits				
Net at beginning of period	\$ 298	\$ 17	\$ 2,889	\$ 803
Net cost for the period	63	5	715	147
Cost for early pensions	8	-	3	4
Contributions made	(42)	(5)	(693)	(151)
Remeasurements of liability (asset) recognized in OCI	(243)	(4)	(557)	(301)
Net (liability) asset for defined benefits (NLDB) / (NADB)	84	13	2,357	502
Restatement	(20)	-	(74)	-
Total net asset (liability) for defined benefits	\$ 64	\$ 13	\$ 2,283	\$ 502
Net cost for the period				
Labor cost	\$ 17	\$ 3	\$ 277	\$ 15
Financial cost	594	3	1,108	346
Return on assets	(571)	(2)	(899)	(286)
Recycling of remeasurements	31	1	231	77
Net cost for the period	\$ 71	\$ 5	\$ 717	\$ 152
Liability (asset) Remeasurements for Net Defined Benefits				
Defined benefits obligations	\$ 7,487	\$ 38	\$ 14,538	\$ 4,339
Estimated obligations for defined benefits	(7,564)	(40)	(14,594)	(4,430)
Actuarial (gains) losses on obligations (AGLO)	\$ (77)	\$ (2)	\$ (56)	\$ (91)

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Reconciliation between value of Obligation for Defined Benefits (ODB) and Fair Value of Plan Assets (FVPA) with the Net Liability for Defined Benefits (NLDB) or Net Asset for Defined Benefits (NADB)

Concept	2022			
	Pension	Seniority Premium	Other retirement benefits	Financial cost of credits
Fair value of plan assets	\$ (7,146)	\$ (24)	\$ (11,639)	\$ (3,659)
Estimated value of plan assets	7,267	23	11,912	3,703
(Gains) losses on return of plan assets (GLRPA)	121	(1)	273	44
Remeasurement of the period to recognize in OCI	\$ 44	\$ (3)	\$ 217	\$ (47)
Average remaining average labor life (ARLF)	10.55	11.24	10.55	10.55

Main hypothesis used

	2022
Discount rate	9.24%
Wage increase rate	19.00%
Minimum wage salary increase	7.80%
Medical service increase rate	12.00%
Long-term inflation rate	3.75%

Financial position

As of December 31, 2023 and 2022, the financial position is as follows:

2023	Retirement pension plan	Seniority Premium	Medical service, savings fund insurance, sports	Other retirement benefits (SLS) and financial cost of credits
Obligation for defined benefits	\$ (7,639)	\$ (43)	\$ (14,972)	\$ (4,215)
Fair value of plan assets	7,233	30	13,151	3,863
Financial position of obligation	(406)	(13)	(1,821)	(352)
Remeasurements pending recognition	114	1	248	79
Net asset (liability) for defined benefits	(292)	(12)	(1,573)	(273)
Restatement	21	-	74	-
Total net asset (liability) for defined benefits	\$ (271)	\$ (12)	\$ (1,499)	\$ (273)

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2022	Retirement pension plan	Seniority Premium	Medical service savings fund, insurance, sports	Other retirement benefits (SLS) and financial cost of credits
Obligation for defined benefits	\$ (7,487)	\$ (38)	\$ (14,538)	\$ (4,339)
Fair value of plan asset	7,146	24	11,639	3,659
Financial position of obligation	(341)	(14)	(2,899)	(680)
Remeasurements pending recognition	257	1	542	178
Net asset (liability) for defined benefits	(84)	(13)	(2,357)	(502)
Restatement	20	-	74	-
Total net asset (liability) for defined benefits	\$ (64)	\$ (13)	\$ (2,283)	\$ (502)

Reconciliation of the reserve and Other Comprehensive Income (OCI)

As of same dates, the reconciliation of the reserve and other comprehensive income, is the following:

2023	Retirement pension plan	Seniority Premium	Medical service, savings fund, insurance, sports	Other retirement benefits (SLS) and financial cost of credits
Balance of reserve at beginning of year	\$ 341	\$ 14	\$ 2,898	\$ 681
Net cost for the period	67	5	725	131
Contribution to the fund	(67)	(5)	(725)	(131)
Remeasurements of liability or (asset) recognized in OCI	(49)	(2)	(1,325)	(408)
Balance at end of year	292	12	1,573	273
Restatement	(21)	-	(74)	-
Total net asset (liability) for defined benefits	\$ 271	\$ 12	\$ 1,499	\$ 273

2022	Retirement pension plan	Seniority Premium	Medical service savings fund, insurance, sports	Other retirement benefits (SLS) and financial cost of credits
Balance of reserve at beginning of year	\$ 298	\$ 17	\$ 2,889	\$ 803
Net cost for the period	63	5	715	147
Cost of early pensions	8	-	3	4
Contributions to the fund	(42)	(5)	(693)	(151)
Remeasurements of liability or (asset) recognized in OCI	(243)	(4)	(557)	(301)
Balance at end of year	84	13	2,357	502
Restatement	(20)	-	(74)	-
Total net asset (liability) for defined benefits	\$ 64	\$ 13	\$ 2,283	\$ 502

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<u>2023</u>	<u>Retirement pension plan</u>	<u>Seniority Premium</u>	<u>Medical service, savings fund, insurance, sports</u>	<u>Other retirement benefits (SLS) and financial cost of credits</u>
Accumulated OCI statement				
Balance at beginning of year pending recognition of OCI	\$ 256	\$ 1	\$ 542	\$ 178
Recycling of remeasurements	<u>(142)</u>	<u>-</u>	<u>(294)</u>	<u>(99)</u>
Balance at end of year pending recognition in OCI	<u>\$ 114</u>	<u>\$ 1</u>	<u>\$ 248</u>	<u>\$ 79</u>
Balance at beginning of year recognized in OCI	\$ 85	\$ 13	\$ 2,357	\$ 503
Recycling of remeasurements	110	-	24	34
Actuarial (gains) losses in obligations	136	-	(735)	(192)
(Gains) losses on return on plan assets	<u>(39)</u>	<u>(1)</u>	<u>(73)</u>	<u>(72)</u>
Balance at end of year recognized in OCI	<u>292</u>	<u>12</u>	<u>1,573</u>	<u>273</u>
Net (liability) asset for defined benefits at end of year	<u>292</u>	<u>12</u>	<u>1,573</u>	<u>273</u>
Restatement	<u>(21)</u>	<u>-</u>	<u>(74)</u>	<u>-</u>
Total net (liability) for defined benefits	<u>\$ 271</u>	<u>\$ 12</u>	<u>\$ 1,499</u>	<u>\$ 273</u>
<u>2022</u>	<u>Retirement pension plan</u>	<u>Seniority Premium</u>	<u>Medical service, savings fund, insurance, sports</u>	<u>Other retirement benefits (SLS) and financial cost of credits</u>
Accumulated OCI statement				
Balance at beginning of year pending recognition in OCI	\$ 414	\$ 2	\$ 865	\$ 287
Recycling of remeasurements	<u>(157)</u>	<u>(1)</u>	<u>(323)</u>	<u>(109)</u>
Balance at end of year pending recognition in OCI	<u>\$ 257</u>	<u>\$ 1</u>	<u>\$ 542</u>	<u>\$ 178</u>
Balance at beginning of year recognized in OCI	\$ (86)	\$ 16	\$ 2,048	\$ 517
Recycling of remeasurements	126	-	92	32
Actuarial (gains) losses in obligations	(77)	(2)	(56)	(91)
(Gains) losses on return on plan assets	<u>121</u>	<u>(1)</u>	<u>273</u>	<u>44</u>
Balance at end of year recognized in OCI	<u>84</u>	<u>13</u>	<u>2,357</u>	<u>502</u>
Net (liability) asset for defined benefits at end of year	<u>84</u>	<u>13</u>	<u>2,357</u>	<u>502</u>
Restatement	<u>(20)</u>	<u>-</u>	<u>(74)</u>	<u>-</u>
Total net (liability) asset for defined benefits	<u>\$ 64</u>	<u>\$ 13</u>	<u>\$ 2,283</u>	<u>\$ 502</u>

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Employee Statutory Profit-Sharing

As of December 31, 2023 and 2022, incurred and deferred Employee Statutory Profit-Sharing (PTU for the acronym in Spanish), are comprised as follows:

	<u>2023</u>	<u>2022</u>
PTU incurred:		
Institution	\$ -	\$ -
Consolidating trusts	-	-
CMIC	-	(1)
Operadora de fondos	(6)	(1)
Real estate company	(1)	(1)
PTU incurred	<u>\$ (7)</u>	<u>\$ (3)</u>
PTU deferred:		
Institution	\$ (60)	\$ 221
Consolidating trusts	-	-
CMIC	-	-
Operadora de fondos	-	-
Real estate company	-	-
PTU deferred	<u>\$ (60)</u>	<u>\$ 221</u>
Total	<u>\$ (67)</u>	<u>\$ 218</u>

Deferred Employee Statutory Profit-Sharing

The calculation of incurred and deferred Employee Statutory Profit-Sharing as of December 31, 2023 and 2022, is analyzed below:

<u>2023</u>	<u>Base</u>	<u>PTU at 10%</u>
Income before income taxes	\$ (11,191)	\$ 1,119
Allocation to incurred tax:		
Inflationary adjustment	(1,994)	199
Valuation of financial instruments	(557)	56
Non-deductible expenses	19	(3)
Preventive allowance for credit risks and other	3,154	(315)
Trust with no business activity	7,154	(715)
Derivative financial transactions	477	(48)
Non-deductible employee benefits	310	(31)
Other, net	(821)	84
PTU incurred	<u>\$ (3,449)</u>	<u>\$ -</u>
PTU in results of subsidiaries		<u>(7)</u>
PTU in consolidated results		<u>\$ (7)</u>

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	<u>Basis</u>	<u>PTU at 10%</u>
Allocation to deferred PTU (PTU at 10%):		
Valuation of financial instruments	\$ 557	\$ (56)
Miscellaneous provisions	-	-
Preventive allowance for credit risks	(2,494)	250
Preventive allowance for credit risks and other, interests on derivative financial instruments	(313)	31
(Swaps)	(597)	60
Other	239	(24)
	<u>(2,608)</u>	<u>261</u>
PTU deferred		
Allowance for deferred PTU assets, non-recoverable	<u>3,206</u>	<u>(321)</u>
PTU deferred, Institution	<u>\$ 598</u>	<u>\$ (60)</u>
PTU deferred, subsidiaries		-
PTU deferred, consolidated		<u>\$ (60)</u>
2022	Basis	PTU at 10%
Income before taxes on income allocation to tax incurred	\$ (8,434)	\$ 843
Inflationary adjustment	(3,265)	327
Valuation of financial instruments	149	(15)
Non-deductible expenses	22	(3)
Preventive allowance for credit risks and other	4,443	(444)
Trust with no business activity	5,211	(521)
Derivative financial transactions	544	(54)
Non-deductible employee benefits	273	(27)
Other, net	107	(10)
	<u>(950)</u>	<u>-</u>
PTU incurred		
PTU in results of subsidiaries		<u>(3)</u>
PTU in consolidated results		<u>\$ (3)</u>
Allocation to PTU deferred (PTU at 10%):		
Valuation of financial instruments	\$ (149)	\$ 15
Provisions and other	(91)	9
Preventive allowance for credit risks	(3,803)	380
Allowance for foreclosed goods, interest on derivative financial instruments	(501)	50
(Swaps)	(37)	4
Other	(250)	25
	<u>(4,831)</u>	<u>483</u>
PTU deferred		
Allowance for assets for deferred PTU Non-recoverable	<u>2,620</u>	<u>(262)</u>
PTU deferred, Institution	<u>\$ (2,211)</u>	<u>\$ 221</u>
PTU deferred, subsidiaries		-
PTU deferred, consolidated		<u>\$ 221</u>

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As of December 31, 2023 and 2022, the Employee Statutory Profit-Sharing deferred asset, is comprised as follows:

	<u>2023</u>	<u>2022</u>
Deferred asset (liability):		
Institution	\$ 729	\$ 932
Corporación Mexicana de Inversiones de Capital, S.A. de C.V.	-	-
Operadora de Fondos Nafinsa, S.A. de C.V.	3	1
Plaza Insurgentes Sur, S.A. de C.V.	-	-
Income tax and deferred PTU	<u>\$ 732</u>	<u>\$ 933</u>

The effects of Employee Statutory Profit-Sharing for temporary differences which originate significant portions of deferred Employee Statutory Profit-Sharing, as of December 31, 2023 and 2022, are analyzed as follows:

	<u>2023</u>	<u>2022</u>
Deferred asset (liability):		
Valuation of financial instruments	\$ (71)	\$ 85
Provisions and other	28	28
Preventive allowance for credit risks	1,415	1,166
Allowance for foreclosed assets	81	50
Interest from derivative financial instruments (Swaps)	66	6
Remeasurements for defined benefits	114	157
Other	11	34
PTU deferred	<u>\$ 1,644</u>	<u>\$ 1,526</u>
Allowance for deferred income tax asset non-recoverable	(915)	(594)
PTU deferred Institution	<u>\$ 729</u>	<u>\$ 932</u>
Income tax and deferred PTU, subsidiaries	3	1
PTU deferred, consolidated	<u>\$ 732</u>	<u>\$ 933</u>

20. INCOME TAX

a) Income tax charged to results

Income Tax Law (LISR for the acronym in Spanish) current starting from January 1, 2014, lays down an Income Tax (ISR for the acronym in Spanish) rate of 30% for 2014 and subsequent years.

The Institution acting as trustee, in accordance with Article 13 of LISR, when business activities are conducted through a trust, the trustee shall determine, in terms of Title II of LISR, the tax result or tax loss from said activities for each period and shall comply, on behalf of a group of trust beneficiaries, with the obligations set out under the LISR, including the obligation to make estimated payments.

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In years ended December 31, 2023 and 2022, the income tax expense, incurred and deferred, charged to results, is comprised as follows:

	<u>2023</u>	<u>2022</u>
ISR incurred:		
Institution	\$ -	\$ -
Consolidating trusts	(1)	-
CMIC	-	(75)
Operadora de fondos	(22)	(6)
Real estate company	(40)	(15)
ISR incurred	\$ (63)	\$ (96)
ISR deferred:		
Institution	\$ (180)	\$ 663
Consolidating trusts	-	-
CMIC	464	262
Operadora de fondos	6	1
Real estate company	13	18
ISR deferred	\$ 303	\$ 944
Total	\$ 240	\$ 848

b) Deferred income tax

For the purpose of income tax, temporary differences originating significant portions of income tax assets of the Institution, as of December 31, 2023 and 2022, are presented below:

	<u>2023</u>	<u>2022</u>
Deferred asset (liability):		
Valuation of financial instruments	\$ (214)	\$ 254
Provisions and other	83	84
Preventive allowance for credit risks	4,245	3,497
Allowance for foreclosed assets	244	150
Interest from derivative financial instruments (Swaps)	198	19
Tax loss	2,642	1,662
Remeasurements for defined benefits	342	470
Other	32	104
Deferred income tax	7,572	6,240
Allowance for non-recoverable income tax asset (1)	(5,386)	(3,445)
Deferred income tax, Institution	\$ 2,186	\$ 2,795
Deferred income tax, subsidiaries	(227)	(713)
Deferred income tax, consolidated	\$ 1,959	\$ 2,082

- (1) The estimate for deferred income tax assets is comprised by tax losses to amortize of which there is no certainty of their recuperation for \$2,642 and the portion of the preventive allowance for credit risks that are foreseen will not be deductible in the future, since from such items \$2,744 will not materialize.

The Institution considers that the net asset is recoverable; however, as indicated in Note 2c, federal government decision regarding charges for use, described in Note 22, may have an impact on the viability of this recuperation.

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c) Reconciliation of the effective rate of income tax

Below, the analysis of the effective rate of income tax for years ended December 31, 2023 and 2022:

<u>2023</u>	<u>Basis</u>	<u>ISR at 30%</u>	<u>Effective rate</u>
Loss before income tax	\$ (11,191)	\$ 3,357	(30%)
Allocation to incurred tax:			
Inflationary adjustment	(1,994)	598	(5%)
Valuation of financial instruments	(557)	167	(1%)
Non-deductible expenses	19	(6)	-
Preventive allowance for credit risk and other	3,154	(946)	8%
PTU deferred	60	(18)	-
Trust with no business activity	7,154	(2,146)	19%
Derivative financial transactions	477	(143)	1%
Non-deductible employee benefit	310	(93)	1%
Other, net	(821)	246	(2%)
Incurring tax (tax loss)	(3,389)	-	(9%)
Tax effect of consolidating trusts	2	-	-
Income tax (tax loss)	\$ (3,387)	\$ -	-
Income tax in results of subsidiaries		(63)	
Income tax in consolidated results		\$ (63)	
Allocation to deferred tax (tax at 30%):			
Valuation of financial instruments	\$ 557	\$ (167)	2%
Miscellaneous provisions	-	-	-
Preventive allowance for credit risks	(2,494)	748	(7%)
Preventive allowance for credit risks and other interest on derivative financial instruments	(313)	94	(1%)
(Swaps)	(597)	179	(2%)
Tax loss	(3,266)	980	(9%)
Other	239	(72)	1%
Deferred income tax	(5,874)	1,762	(16%)
Allowance for unrecoverable deferred income tax asset	6,472	(1,942)	-
Income tax, institution	\$ 598	\$ (180)	-
Income tax, subsidiaries		483	
Income tax, consolidated		\$ 303	

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2022	Basis	ISR at 30%	Effective rate
Loss before income tax allocation to incurred tax:	\$ (8,434)	\$ 2,530	(30%)
Inflationary adjustment	(3,265)	980	(12%)
Valuation of financial instruments	149	(45)	1%
Non-deductible expenses	22	(7)	0%
Preventive allowance for credit risks and other	4,443	(1,333)	15%
PTU deferred	(221)	66	(1%)
Trust with no business activity	5,211	(1,563)	20%
Derivative financial transactions	544	(163)	2%
Non-deductible employee benefits	273	(82)	1%
Other, net	107	(32)	0%
	(1,171)	-	(4%)
Tax incurred			
Tax effect of consolidating trusts	-	-	-
Income tax (tax loss) of the Institution	\$ (1,171)	\$ -	-
Income tax on results of subsidiaries		(96)	
Income tax on consolidated results		\$ (96)	
Allocation to deferred income tax (tax at 30%):			
Valuation of financial instruments	\$ (149)	\$ 45	(1%)
Provisions and other	(91)	27	0%
Preventive allowance for credit risks and credit risks	(3,803)	1,141	(13%)
Allowance for foreclosed assets and interest on derivative financial instruments	(501)	150	(2%)
(Swaps)	(37)	11	0%
Tax loss	(1,905)	572	(7%)
Other	(250)	75	(1%)
Deferred income tax	(6,736)	2,021	(24%)
Allowance for non-recoverable deferred income tax assets	4,525	(1,358)	-
Deferred income tax (net), Institution	\$ (2,211)	\$ 663	-
Deferred income tax (net), subsidiaries		281	
Deferred income tax (net), consolidated		\$ 944	

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d) Other considerations

In accordance with the current tax legislation, the authorities have the faculty to conduct an official review of five years as from the date on which the last income tax return was filed.

In accordance with the LISR, companies conducting transactions with related parties, resident in Mexico or abroad, are subject to tax restrictions and obligations as to the determination of agreed-upon prices, as they must be similar to those used with or between independent parties in comparable transactions.

The base for ISR of each year differs from the base for Employee Statutory Profit-Sharing given the payment of profit-sharing to employees and benefits paid to employees which are not fully deductible for purposes of ISR.

e) Tax loss carryforwards

Tax loss 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).

As of December 31, 2023, tax loss carryforwards, restated at that date, are summarized as follows:

<u>Year incurred</u>	<u>Historical amount</u>	<u>Restatement</u>	<u>Restated amount</u>	<u>Year of expiration</u>
2019	\$ 1,556	\$ 368	\$ 1,924	2029
2020	1,426	276	1,702	2030
2021	684	88	772	2031
2022	981	42	1,023	2032
2023	3,387	-	3,387	2033
	<u>\$ 8,034</u>	<u>\$ 774</u>	<u>\$ 8,808</u>	

21. STOCKHOLDERS' EQUITY

Capital stock

As of December 31, 2023, capital stock of the Institution is comprised as follows:

	<u>Capital contribution certificate</u>		<u>Par value (pesos)</u>	<u>Amount</u>		<u>Total</u>
	<u>"A" Series</u>	<u>"B" Series</u>		<u>"A" Series</u>	<u>"B" Series</u>	
Subscribed capital	\$ 59,400,000	\$ 30,600,000	\$ 50	\$ 2,970	\$ 1,530	\$ 4,500
Unissued capital	(14,839,512)	(7,644,598)	50	(742)	(382)	(1,124)
Subscribed and paid capital	<u>\$ 44,560,488</u>	<u>\$ 22,955,402</u>	<u>\$ 50</u>	<u>\$ 2,228</u>	<u>\$ 1,148</u>	<u>\$ 3,376</u>
Restatement increase						<u>7,011</u>
Total capital social						<u>\$ 10,387</u>

On March 3, 2022, the Agreement modifying the Organizational Regulations of Nacional Financiera was published in the Official Gazette of the Federation, whereby Article 7 includes the new maximum amount of the Institution's capital stock in the amount for recognizing the new maximum authorized amount of \$4,500, supported by 59,400,000 "A" Series certificates of capital contribution, as well as 30,600,000 "B" Series certificates of capital contribution, with a par value of each one of the certificates of \$50.00 (Fifty pesos and 00/100).

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The Institution's capital stock will be represented in 66% by "A" Series certificates and 34% by "B" Series certificates. "A" Series certificates may only be subscribed by the Federal Government and "B" Series certificates by Federal Government and Mexican individuals or companies. As of December 31, 2023 and 2022, the Federal Government owns 99.97% of capital stock.

On June 24, 2022, the Ministry of Finance and Public Credit issued official communication no. 368.-V.- 22/2022 addressed to the Institution, whereby a non-certified copy of the certificate of delivery-reception of the CAP securities that represent the investments of the Federal Government is delivered to the TESOFE for their custody and receipt of the "A" and "B" Series CAPs issued on June 13, 2022. Moreover, a non-certified copy of series "A" and "B" CAPs signed on June 9, 2022, was delivered. Said CAPs represent the paid-in capital stock increase, arising from the capital contribution made by the Ministry of Finance and Public Credit on December 31, 2020, in the amount of \$7,290, applied to paid-in capital stock in the amount of \$482, and premiums for CAPs underwriting in the amount of \$6,808.

On October 14, 2022, the Ministry of Finance and Public Credit issued official communication no. 368.-V.- 103/2022 addressed to the Institution, whereby a non-certified copy of the certificate of delivery-reception of the CAP securities that represent the investments of the Federal Government is delivered to the TESOFE for their custody and receipt of the series "A" and "B" Series CAPs issued on October 10, 2022. Moreover, a noncertified copy of series "A" and "B" CAPs signed on October 7, 2022 was delivered. Said CAPs represent the paid-in capital stock increase, arising from the capital contribution made by the Ministry of Finance and Public Credit on November 30, 2021, in the amount of \$4,274, applied to paid-in capital stock in the amount of \$267, and premiums for CAPs underwriting in the amount of \$4,007.

Contributions for future capital stock increases

As of December 31, 2023 and 2022, its value amounts to \$12,129 y \$3,326, respectively.

As of December 31, 2022, its value amounts to \$3,326. On December 19, 2022, the Ministry of Finance and Public Credit (SHCP) made a capital contribution in the amount of \$3,326. At a Board of Directors meeting, the capital stock contribution was authorized in the amount of \$3,326. The Institution's Management will make the necessary arrangements to have the capital stock contribution authorized, given that is required to be able to support the volume of development and investment banking transactions, which includes investments in venture capital, as well as maintaining a prudent capitalization level.

On December 29, 2023, the Ministry of Finance and Public Credit (SHCP), carried out a capital contribution for \$8,803; at the Board Meeting such contribution was authorized.

Premium on sale of shares

The premium on sale of Certificates of Equity Contribution (CAP for the acronym in Spanish) represents the excess difference between the payment for subscribed DAPS and their par value. The balance of premiums on sale of CAPs as of December 31, 2023 and 2022, amounts to \$31,868. As mentioned in this note, under section 'capital stock', during year 2023 there were no increases to the premium on sale of shares, given that contributions made by SHCP are in process of formalization.

Capital reserve

Net income for the year, when generated, is subject to the legal provision that requires that 5% thereof is transferred to the legal reserve, until it is equal to 20% of capital stock, except in the case of having accumulated losses, which should be first fully amortized before setting aside the legal reserve.

The nominal value of the capital reserves as of December 31, 2023 and 2022, amount to \$1,699, and its restated value as of year-end amounts to \$3,115.

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Dividends declared

Dividends paid to individuals and residents abroad shall be subject to an additional 10% tax, 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 years ended December 31, 2023 and 2022, there were no dividends declared.

Comprehensive income

As of December 31, 2023 and 2022, comprehensive income reported in the consolidated statements of changes in stockholders' equity, represents the result of total activity during the year and includes net income, the effects of valuation of investments in financial instruments for collecting or selling in the amount of \$(112) and \$44, respectively, as well as the valuation of cash flow hedging derivative financial instruments for \$288 and \$68, respectively, remeasurement of defined employee benefits for \$636 and \$(364), respectively, and valuation effects of associated and affiliated companies for \$12 and \$(39), respectively.

Restrictions on stockholders' equity

The Credit Institutions Law requires the Institution to set aside 10% of its earnings, on an annual basis, to set up capital reserves, up to the amount of the paid-in capital stock.

In case of equity reimbursements or retained earnings distributions to stockholders, income tax is due on the portion of the reimbursement or distributions exceeding the taxable basis. As of December 31, 2023 and 2022, the capital contribution account (CUCA for the acronym in Spanish) of the Institution amounts to \$105,281 and \$100,593, respectively, and the after-tax earnings account (CUFIN for the acronym in Spanish), amounted to \$18,722 and \$18,298, respectively.

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

Capitalization (unaudited information)

As of December 31, 2023, the preliminary calculation of the capitalization ratio was set at 18.37%, which is comprised of net capital amounting to \$29,322 and total risk-weighted assets amounting to \$159,657.

a. Basic and supplementary capital

The Institution's net capital consists of \$28,136 of basic capital. Pursuant to the application of the portfolio rating methodology, supplementary capital is equal to \$1,186 which implies that net capital is equal to \$29,322. The basic capital, in this case, is equal to the fundamental capital.

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b. Assets adjusted for market risks

Assets adjusted for market risks amount to \$40,049 and are equivalent to a capital requirement of \$3,024, integrated as follows:

Positions exposed to market risk by risk			
Concept	Amount of equivalent positions		Capital requirement
Transactions in local currency at nominal rate	\$	14,666	\$ 1,173
Transactions with debt securities in local currency with spread and adjustable rate		5,635	451
Transactions in local currency with actual rates or denominated in UDIs		1,928	154
Position in UDIs or with returns indexed to NCPI		8	1
Transactions in foreign currency at nominal rate		2,476	198
Positions in foreign currency or returns indexed to exchange rate		84	7
Positions in gold		-	-
Positions in shares or with return indexed to the price of a single share or group of shares		15,252	1,220
	\$	<u>40,049</u>	\$ <u>3,204</u>

c. Assets adjusted for credit risks

Assets adjusted for credit risk amount to \$111,885 and are equivalent to a capital requirement of \$8,950. Therefrom, assets adjusted for risk related to borrowers and deposits amount to \$92,657, equivalent to a capital requirement of \$7,413, and are comprised as follows:

Weighted assets subject to credit risk by risk group			
Concept	Assets weighted by risk		Capital requirement
Group III (weighted at 20%)	\$	15,418	\$ 1,233
Group III (weighted at 50%)		5,373	430
Group III (weighted at 100%)		2,707	217
Group IV (weighted at 20%)		505	40
Group VI (weighted at 100%)		11,998	960
Group VII (weighted at 20%)		6,750	540
Group VII (weighted at 50%)		19,597	1,568
Group VII (weighted at 100%)		710	57
Group VII-B (weighted at 100%)		24,629	1,970
Group IX (weighted at 100%)		4,970	398
	\$	<u>92,657</u>	\$ <u>7,413</u>

d. Assets adjusted for operational risk

Assets adjusted for operational risk amount to \$7,723 and are equivalent to a capital requirement of \$618.

Weighted assets subject to operational risk			
Used method	Assets weighted by risk		Capital requirements
Basic benchmark	\$	7,723	\$ 618

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The detail of subcomponents of required capital calculation by operational risk using the business benchmark at the closing of December 2023, is the following:

Business Indicator Subcomponents	Cum. Cash Flow T1 dec 22- nov 23	Cum. Cash Flow T2 dec 21- nov 22	Cum. Cash Flow T3 dic 20-nov 21
Interest, Lease and Dividends (ILDC) Components	3,210		
Interest income of al financial assets and other interest income	42,477	26,920	19,267
Interest expense on financial liabilities and other interest expense	39,522	24,806	14,709
Annual Net Income	2,954	2,114	4,558
Productive assets (average 36 months)	486,711		
Dividend income	4	1	0
Services Component (SC)	1,644		
Other operating income	2,198	137	81
Other operating expenses	451	7,722	13,860
Benefits	0	6,824	13,318
Other operating expenses without benefits	451	898	542
Commissions and rates income	503	1,095	917
Commissions and rates expenses	128	136	111
Financial Component (FC)	294		
Net income/loss in assets and liabilities of investment portfolio, hedging accounts and foreign exchange difference	325	264	294
Business Indicator (BI)	5,149		
Business Indicator Component (BIC)	618		
Internal Loss Multiplier (ILM)	1		
Capital Requirement for Operational Risk	618		
Assets subject to Operational Risk	7,723		

No information regarding the Historical Loss Base, since the Internal Loss Multiplier benchmark is “1”, thus when using such benchmark, the historical information on Annual Losses for Operational Risk is not considered, when using the required capital calculation through the Business Benchmark.

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Appendix 1-O of the Provisions establishes the requirements for the disclosure of information related 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 disclosure format contained in the document "Format of capital disclosure without considering transitory application of regulatory adjustments".

Ref.	Common equity Tier 1 (CET 1): Instruments and Reserve	Amount
1	Common shares qualifying for common equity Tier 1 plus its corresponding premium	\$ 54,384
2	Results from prior years	(14,322)
3	Other elements of comprehensive income (and other reserves)	(6,364)
6	Common equity Tier 1 before regulatory adjustments	\$ 33,698
	Common equity Tier 1: regulatory adjustments	
9	Other intangibles different from rights for mortgage services (net of the corresponding deferred income tax payable)	174
15	Defined benefits pension plan	\$ 20,414
21	Deferred income tax asset stemming from temporary differences (amount above 10% threshold, net of deferred tax liability)	729
26	Local regulatory adjustments	4,659
A	of which: Other elements of comprehensive income (and other reserves)	-
D	of which: Investments in multilateral bodies	564
F	of which: Investments in venture capital	3,995
G	of which: Investments in mutual funds	101
28	Total regulatory adjustments to common equity Tier 1	5,562
29	Common equity Tier 1 (CET 1)	\$ 28,136
	Additional capital Tier 1: regulatory adjustments	
44	Additional Tier 1 capital (AT1)	-
45	Tier 1 capital (T1 = CET1 + AT1)	28,136
	Tier 2 capital: instruments and provisions	
50	Provisions	1,186
	Tier 2 capital before regulatory adjustments	
	Tier 2 capital: regulatory adjustments	
51	Tier 2 capital (T2)	\$ 1,186
59	Total capital (TC = T1 + T2)	\$ 29,322
60	Total risk weighted assets	\$ 161,287
Ref.	Common equity Tier 1 capital (CET 1): Capital común de nivel 1 (CET 1): Instruments and reserves	Monto
	Equity ratios and buffers	
61	Common equity Tier 1	17.62%
62	Tier 1 capital (as a percentage of total risk weighted assets)	17.62%
63	Total capital (as a percentage of total risk weighted assets)	18.37%
64	Institution specific buffer requirement (as a minimum, it should be made up of CET 1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of total risk weighted assets)	20.12%
65	of which: Capital conservation buffer requirement	2.50%
68	Common equity Tier 1 available to meet buffers (as a percentage of total risk weighted assets)	10.62%

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2. Ratio of net capital with balance sheet.

Balance sheet items reference	Balance sheet items (unconsolidated)	December 2023
	<u>Assets</u>	
BG1	Cash and cash equivalents	139,602
BG2	Margin accounts	90
BG3	Investments in financial instruments	228,503
BG4	Debtors on repurchase/resell agreements	47,266
BG5	Securities loan	-
BG6	Derivative financial instruments	12,511
BG7	Valuation adjustments for hedging of financial assets	854
BG8	Total loan portfolio (net)	219,768
BG9	Benefits receivable in securitization transactions	-
BG10	Other accounts receivable (net)	8,873
	Advance payments and other assets (net)	756
BG11	Foreclosed assets (net)	-
BG12	Property, furniture and equipment (net)	5
BG13	Permanent investments (*)	33,159
BG14	Long-lived assets available for sale	-
BG15	Deferred income tax assets (net)	2,186
	<u>Liabilities</u>	
BG17	Deposit funding	341,107
BG18	Interbank loans and loans from other entities	50,199
BG19	Creditors on repurchase/resell agreements	193,970
BG20	Securities lending	-
BG21	Collateral sold or pledged	47,266
BG22	Derivative financial instruments	13,827
BG23	Valuation adjustments from hedging of financial liabilities	(994)
BG24	Obligations on securitization transactions	-
BG25	Other accounts payable	11,130
	Employee benefits liabilities	2,055
BG26	Outstanding subordinated obligations for income taxes	1
BG28	Deferred credits and advance collections	22
	<u>Stockholders' equity</u>	
BG29	Paid-in capital	54,384
BG30	Earned capita	(19,394)
	<u>Memorandum accounts</u>	
BG31	Guarantees granted	-
BG32	Contingent assets and liabilities	99,519
BG33	Loan commitments	113,711
BG34	Assets in trust or mandate	2,284,978
BG35	Federal Government financial agent	271,781
BG36	Assets in custody or under administration	740,688
BG37	Collateral received by the entity	47,217
BG38	Collateral received and sold or pledged by the entity	47,217
BG39	Investment banking transactions on behalf of third parties (net)	-
BG40	Uncollected accrued interest from past-due loan portfolio	114
BG41	Other memorandum accounts	1,116,006
	(*) Includes other investments	

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Regulatory concepts considered for the calculation of net capital components.

<u>Identifier</u>	<u>Regulatory concepts considered for calculation of net capital</u>	<u>Reference to disclosure format of composition of capital of Section 1</u>	<u>Amount of combination with notes to table of regulatory concepts considered for calculation of components of net capital</u>	<u>Reference(s) to balance sheet items and amount related to the considered regulatory concept of net capital arising from the mentioned reference</u>
	<u>Asset</u>			
	Goodwill	8	-	
	Other intangibles	9	17	
	Deferred income tax	-	735	
	(Asset) from tax losses and tax credits	10	729	
	Reserves recognized as supplementary capital	50	1,186	
	Investments in subordinated debt	26-B	-	
	Investments in multilateral agencies	26-D	564	
	Investments in related entities	26-E	-	
	Investments in venture capital	26-F	3,995	
	Investments in investment entities	26-G	101	
	Investments in pension plan for defined benefits	26-N	20,414	

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<u>Identifier</u>	<u>Regulatory concepts considered for calculation of net capital</u>	<u>Reference to disclosure form of composition of capital Section I</u>	<u>Amount of combination with notes to table of regulatory concepts considered for calculation of components of net capital</u>	<u>Reference(s) to balance sheet items and amount related to considered regulatory concept for calculation of net capital arising from mentioned reference</u>
<u>Stockholders' equity</u>				
	Contributed capital complying with Appendix I-Q	1	54,384	
	Results from prior years	2	14,322	
	Other earned capital different from the foregoing	3	6,364	
	Translation cumulative effect	3, 26-A	Not applicable	
	Result from holding of non-monetary assets	3, 26-A	Not applicable	
	Gain or increase in value of assets for acquisition of non-monetary assets securitized positions (originating institutions)	26-C	Not applicable	
	Transactions contravening provisions	26-I	Not applicable	
	Transactions with relevant related parties	26-M	Not applicable	
	Adjustments in recognition of capital	26-O, 41, 56	Not applicable	

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3. Main characteristics of securities that are part of net capital (“A” Series).

Ref.	Characteristics	Options
1	Issuer	Nacional Financiera, Sociedad Nacional de Crédito
2	Identifier ISIN, CUSIP or Bloomberg	
3	Legal framework	In accordance with Art. 30 of Law of Credit Institutions, Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, is governed by its Organizational Law, holders of equity contribution certificates “A” Series, shall have, as appropriate, rights provided under Art. 35 of Law of Credit Institutions and Art. 121 of the Institution’s Organizational Law.
	Regulatory treatment	
4	Capital level with transitory status	
5	Capital level without transitory status	Basic 1
6	Instrument level	Lending institution, unconsolidating subsidiaries
7	Type of instrument	“A” Series certificate of capital contribution
8	Amount recognized in regulatory capital	66% in accordance with (3)
9	Nominal value of the instrument	50 Mexican pesos
9A	Instrument currency	
10	Accounting classification	Equity
11	Issue date	
12	Instrument term	Perpetuity
13	Maturity date	No maturity
14	Early payment clause	NO
15	First date for early payment	
15A	Regulatory or tax events	
15B	Settlement prices or early payment clause	
16	Subsequent dates for early payment	
	Yield / dividends	
17	Type of yield/dividend	Variable
18	Interest/dividend	Variable
19	Dividend cancellation clause	No
20	Discretionary nature of payment	Fully discretionary
21	Interest rate increase clause	No
22	Yield /dividend	Non-cumulative
23	Instrument convertibility	Non-cumulative
24	Convertibility conditions	
25	Convertibility degree	
26	Conversion rate	
27	Type of instrument convertibility	
28	Type of financial instrument convertibility	
29	Instrument issuer	
30	Impairment clause (write-down)	
31	Impairment conditions	
32	Impairment degree	
33	Impairment temporary status	
34	Impairment temporary status	
35	Subordinated position in the event of settlement	
36	Default characteristics	
37	Description of default characteristics	

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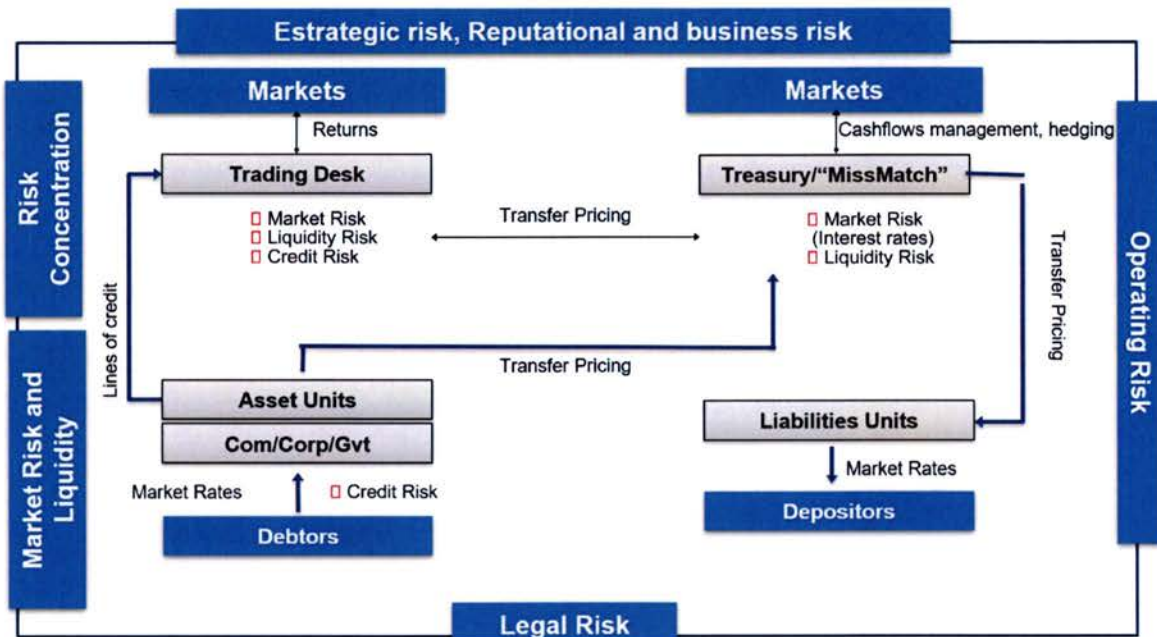
4. Capital management.

The methodological framework for risk management must facilitate and support the measurement and monitoring of quantifiable risks, ensuring robust 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 starting point 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 controlling the balance sheet risks. This unit incurs market, credit and liquidity risks, and in the case of Nacional Financiera, it is also responsible for the deposit-funding unit.
- Trading desks: their main function is to generate revenues through trading 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.



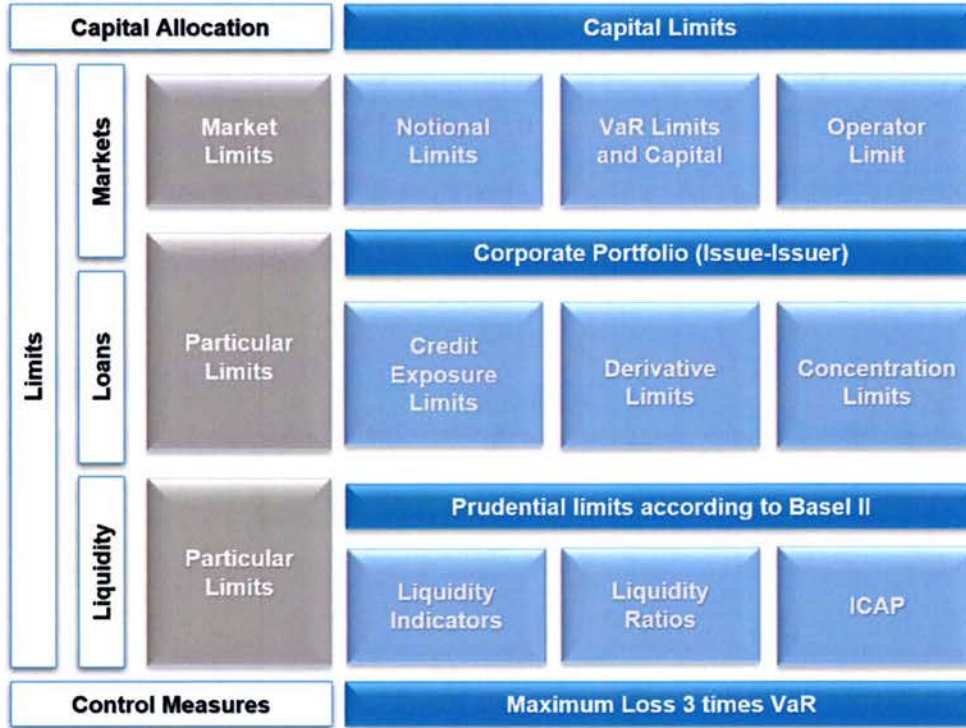
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Based on the foregoing, the Institution has a solid structure of global and specific limits for exposure to different types of risk considering the consolidated risk, broken down by business unit, risk factor and cause, as shown in the following diagram:



In the above diagram, the capital limits have a strong relevance, for which the following process is followed:



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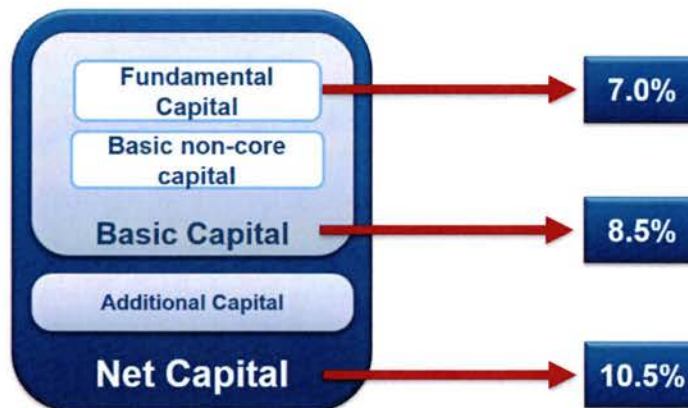
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The capital allocation process arises from the regulatory capital, which is regulated based on the capitalization rules set forth in the Provisions. Based on these concepts, distributable capital is determined, which is the capital that the Institution has to cope with the risks assumed by its transactions.

Basel III establishes that the Institution has three indicators of solvency, where ICAP is the most restrictive given the fact that the requirement changed from 8.0% to 10.5%. It is precisely this restriction which establishes the appetite for risk through the limits of capital, that is, it should be guaranteed that taking limits to 100%, and in the face of stress situations, the capitalization level in no case will be less than 10.5%.



This increase of 250 basis points in the ICAP is a strong buffer which replaces the previously held capital volatility buffer, for the desired risk profile and operational risk.

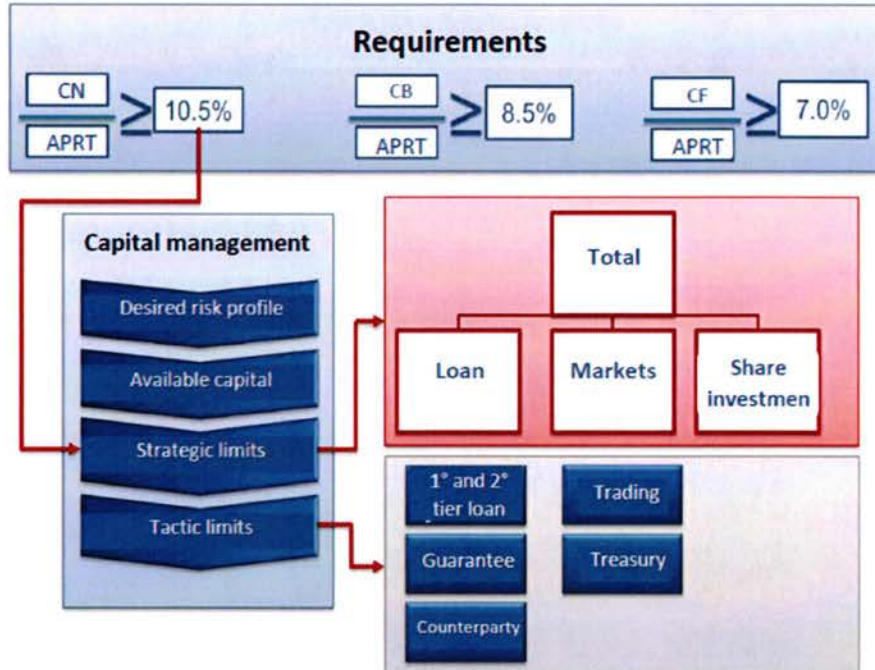
Capital limit structure

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

- a) A Strategic Level authorized by the Board of Directors.
- b) A Tactical Level that is regulated by the CAIR, through reallocations or excess of limits, as well as the business areas management. Additionally, Unit Heads involved in the business areas can also propose reallocations of the limits, with the approval of the Risk Director, who subsequently informs the CAIR.

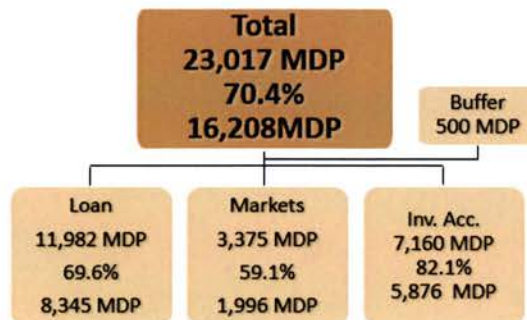
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c) In summary, the Institution has the following requirements:



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 assumption, i.e., that it is implicit in the operation of the Institution itself. Due to the above, there is a buffer for operational risk that does not compute for the capital limits, but that is considered in the calculation of the capitalization level. Nonetheless, in terms of the 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 2023, the preliminary capitalization ratio was 18.37%. and the total capital limit recorded a global consumption of 70.4%.



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There are three basic scenarios:

1. If capital limits were utilized at 100%, the capitalization level would remain above the 10.5% required.
2. If, under the current structure, there was 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, for the purpose of having the capacity to obtain resources and continue operating under a stress scenario, in which the Institution's capital sufficiency is compromised without noncompliance of the minimum levels set out by the authorities, the Treasury Department will obtain in the markets, the necessary resources in the best conditions of cost and term, based on the guidelines established by the Institution's Management.

In order to manage liquidity risks, the Treasury Department will regulate the operational execution in accordance with strategies that will be aligned with the Institution's management objectives and will be responsible for triggering the contingent procedures for liquidity management, and in some cases, the procedures established in the "Contingency Financing Plan". The Treasury Department will inform the Risk Management Office on any liquidity contingency situation.

22. MEMORANDUM ACCOUNTS

Contingent assets and liabilities

As of December 31, 2023 and 2022, this caption amounts to \$84,169 and \$77,469, respectively, comprised as follows:

	<u>2023</u>	<u>2022</u>
Contingent liabilities		
Guarantees granted ⁽¹⁾	\$ 97,020	\$ 88,649
Guarantees paid to be reimbursed by counter guarantors ⁽²⁾	10,456	11,395
Debtors on claims	225	201
Commitments undertaken	1,435	1,655
Contingency for portfolio without recourse of Fiso 80139 ⁽⁶⁾	\$ 62	\$ 199
Subtotal	<u>109,198</u>	<u>102,099</u>
Contingent assets:		
Counter guarantee received for business financing ⁽³⁾	7,818	7,343
Recoverable paid guarantees covered by counter guarantors ⁽⁴⁾	10,456	11,395
Guarantees paid pending recovery with no counter guarantee ⁽⁵⁾	<u>6,755</u>	<u>5,892</u>
Subtotal	<u>25,029</u>	<u>24,630</u>
Total	<u>\$ 84,169</u>	<u>\$ 77,469</u>

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- (1) Under caption “Guarantees granted”, the Institution has mainly guarantees granted through trusts Fondo para Participación de Riesgos and Fondo para la Participación de Riesgos en Fianzas, which as of December 31, 2023 and 2022, both present an amount of guarantees granted for \$96,655 and \$87,913, respectively. The spread as of December 31, 2023 and 2022, for \$365 and \$736, respectively, correspond to selective guarantees granted directly by the Institution. These guarantees represent the amount of the responsibilities assumed by the Institution to guarantee the recovery of financial intermediaries’ loan portfolio.
- (2) Under this caption, the Institution recognizes the contingent obligation to reimburse, mainly to the counter guarantee Trust for Corporate Financing, the amount of the guarantees paid, which had a counter guarantee and which are in the process of recovery by banking and non-banking financial intermediaries.
- (3) Trust Fondo para la Participación de Riesgos (the Fund) reduces the Institution's contingency through the counter guarantee received the counter guarantee Trust for Corporate Financing, a promoter of loan granting for specific purposes, which has allocated resources for these purposes for \$7,818 and \$7,343, as of December 31, 2023 and 2022, respectively. These funds ensure the recovery up to these amounts of guarantees exercised by the financial intermediaries, who assume the commitment of negotiating, judicially and out-of- court, the recovery of loans from their final borrowers.

In addition to such counter guarantee, the Fund has created a preventive allowance for credit risks for \$9,921 and \$8,484, as of December 31, 2023 and 2022, respectively, in accordance with the provisions of the Banking Commission.

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

- (4) Under this caption, there is recognition of the contingent right of the Institution to recover the amount of the guarantees paid that had a counter guarantee and were covered by the counter guarantee Trust of Corporate Financing, and which are in the process of recovery by banking and non-banking financial intermediaries.
- (5) Under the caption of paid guarantees pending recovery without counter guarantee, there is a recognition of 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 the counter guarantee Trust for Corporate Financing.
- (6) The caption “Contingency for portfolio without recourse” corresponds to guarantees not exercised by the financial intermediary.

Loan commitments

As of December 31, 2023 and 2022, the Institution has credit facilities and lines of guarantees granted to financial intermediaries that have not been withdrawn in an amount of \$362,509 and \$311,244, respectively.

As of December 31, 2023, \$113,711 correspond to credit facilities and \$248,798 to lines of guarantee granted, while as of December 31, 2022, credit facilities amount to \$126,639 and to lines of credit, \$184,605.

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Assets in trust or under mandates, and financial agent of the Federal Government

The Institution's trust activity recorded in memorandum accounts as of December 31, 2023 and 2022, as well as the transactions in its capacity of financial agent for the Federal Government are integrated as shown below:

	<u>2023</u>	<u>2022</u>
Investment trusts	\$ 20,851	\$ 18,996
Management trusts	2,107,339	1,943,562
Guarantee trusts	<u>50,515</u>	<u>48,098</u>
	2,178,705	2,010,656
Mandates	<u>106,273</u>	<u>12,318</u>
	2,284,978	2,022,974
Financial agent for the Federal Government	<u>271,781</u>	<u>337,863</u>
Total	<u>\$ 2,556,759</u>	<u>\$ 2,360,837</u>

Investment and administration trusts refer to entities with their own legal capacity, independent from the Institution.

These balances represent the valuation of trust assets which, overall, represent assets valued using different 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 of 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 Credit Institutions by the trustors thereof.

The Institution only performs the fiduciary function in such entities.

The Institution's revenues from its trustee activities as of December 31, 2023 and 2022, amounted to \$440 and \$395, respectively.

As of December 31, 2023 and 2022, the trust accounts include a balance of \$680 and \$320, respectively, which correspond to the assets of Fideicomiso de Recuperación de Cartera (FIDERCA). This trust manages doubtful accounts that originally belonged to the Institution and that in year 1996 were transferred to the Federal Government. The Institution currently holds the respective trustee rights.

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

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Assets in custody or under administration

As of December 31, 2023 and 2022, this caption includes assets, values of others, trading and credit transactions, as well as securities issued by the Institution and managed on behalf of customers, as shown below:

	<u>2023</u>	<u>2022</u>
Custody	\$ 5,800	\$ 5,708
Pledged securities	168,971	182,029
Securities under administration	565,917	457,320
Subsidiaries	<u>232,646</u>	<u>124,937</u>
Total	<u>\$ 973,334</u>	<u>\$ 769,994</u>

Fees collected by the Institution for this type of activities as of December 31, 2023 and 2022, amounted to \$9 and \$7, respectively.

Other memorandum accounts

As of December 31, 2023 and 2022, balances of other memorandum accounts are made up of as follows:

	<u>2023</u>	<u>2022</u>
Guaranteed paid reported by intermediaries as uncollectible with no counter guarantee ^(a)	\$ 165	\$ 356
Classification of loan portfolio by risk degree	326,452	300,380
Loans obtained pending withdrawal	2,028	1,772
Other memorandum accounts ^(b)	<u>803,668</u>	<u>780,209</u>
Total	<u>\$ 1,132,313</u>	<u>\$ 1,082,717</u>

(a) These guarantees correspond to the amounts of unrecovered guarantees on which collection procedures have been exhausted by the intermediaries and which did not have a counter guarantee.

(b) Other memorandum accounts are included for control of renewed and restructured loans, uncollectible loans, uncollectible loans applied against the provision, certificates and coupons to be incinerated, VAT recorded by states, portfolio recovery, control of interests of London branch, issuance of provisional certificates, foreclosed assets or asset received in payment in kind, control of amounts contracted in repurchase/resell agreements and investments, commitments, preventive allowance for credit risks from financial intermediaries, uncollectible guarantees reported by intermediaries, cancellation of external guarantee and sundry non specified concepts, as well as other memorandum accounts.

23. INFORMATION BY SEGMENTS AND OPERATIONS

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 periodically to the Board of Directors of the Institution.

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

The First tier credit segment considers the loan portfolio placed directly with the public and private sector, 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-banking financial intermediaries are included in the credit guarantees segment. The balances of this segment are shown in memorandum accounts and as of December 31, 2023 and 2022, amount to \$84,169 and \$77,469, 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 bodies, and as of December 31, 2023 and 2022, amounted to \$271,781 and \$337,863, respectively, which are recorded in memorandum accounts.

The trustee segment includes administrative services for own and external trusts, which as of December 31, 2023 and 2022, amount to \$2,284,978 and \$2,022,974, respectively, and are presented in memorandum accounts.

Investment banking, balances of subsidiaries and other net income (expense) are included in the "Other areas" segment. Commissions for structuring of credits, stock market guarantees, as well as the equity in venture capital for public and private companies are included in investment banking.

As of December 31, 2023 and 2022, the assets, liabilities and net income of the main operations by business segments of the Institution are presented below:

<u>2023</u> Business segments	Assets		Liabilities and equity		Net income (expense)	
	Amount	%	Amount	%	Amount	%
Markets and treasury	\$ 437,861	66.0	\$ 437,861	66.0	\$ 2,239	(27.3)
First tier credit	63,467	9.6	63,467	9.6	(2,199)	26.8
Second tier credit	165,619	25.0	165,619	25.0	1,002	(12.2)
Loan guarantees	-	-	-	-	3,418	(41.7)
Financial agent	-	-	-	-	(88)	1.1
Trustee	-	-	-	-	(76)	0.9
Other areas	(3,222)	(0.6)	(3,222)	(0.6)	(108)	1.3
Benefits, labor obligation and contribution to Fiso 8013-9	-	-	-	-	(12,390)	151.1
Total	\$ 663,725	100.0	\$ 663,725	100.0	\$ (8,202)	100.0

<u>2022</u> Business segments	Assets		Liabilities and equity		Net income (expense)	
	Amount	%	Amount	%	Amount	%
Market and treasury	\$ 323,056	59.9	\$ 323,056	59.9	\$ 2,467	(32.2)
First tier credit	69,446	12.9	69,446	12.9	868	(68.4)
Second tier credit	141,918	26.3	141,918	26.3	(2,870)	93.1
Loan guarantees	-	-	-	-	(57)	(0.5)
Financial agent	-	-	-	-	(57)	0.3
Trustee	-	-	-	-	(119)	0.8
Other	4,591	0.9	4,591	0.9	(246)	3.2
Benefits, labor obligation	-	-	-	-	(7,758)	103.7
Total	\$ 539,011	100.0	\$ 539,011	100.0	\$ (7,772)	100.0

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The statement of comprehensive income by segments for years ended December 31, 2023 and 2022, is shown below:

2023	Market and treasury	First tier credit	Second tier credit	Loan guarantee	Financial agent	Trustee	Other areas ^(a)	Benefits and retirement expenses	Total
Income:									
Net financial income	\$ 2,625	\$ 856	\$ 1,780	\$ 7,148	\$ 83	\$ 195	\$ 445	\$ -	\$ 13,132
Expenses:									
Operating expenses	(415)	(129)	(677)	(434)	(167)	(258)	(45)	-	(2,125)
Operating profit	2,210	727	1,103	6,714	(84)	(63)	400	-	11,007
Allowances for loan losses and write-downs	116	(2,924)	(85)	(3,173)	(2)	(4)	(507)	-	(6,579)
Pensioners expenses	-	-	-	-	-	-	-	(1,001)	(1,001)
Other expenses and taxes (b)	(87)	(2)	(16)	(123)	(2)	(9)	(1)	(11,004)	(11,244)
Transfers to Fiso 8013-9	-	-	-	-	-	-	-	(385)	(385)
Net result	\$ 2,239	\$ (2,199)	\$ 1,002	\$ 3,418	\$ (88)	\$ (76)	\$ (108)	\$ (12,390)	\$ (8,202)

2022	Markets and treasury	First tier credit	Second tier credit	Loan guarantee	Financial agent	Trustee	Other areas ^(a)	Benefits and retirement expenses	Total
Income:									
Net financial income (c)	\$ 2,445	\$ 1,192	\$ 1,570	\$ 5,234	\$ 119	\$ 168	\$ (208)	\$ -	\$ 10,520
Expenses:									
	(388)	(110)	(590)	(416)	(147)	(238)	(38)	-	(1,927)
Operating profit	2,057	1,082	980	4,818	(28)	(70)	(246)	-	8,593
Allowances for loan losses and write-downs	(297)	(223) ^(c)	(3,911)	(4,926)	(48)	(80)	(6)	-	(9,491)
Pensioner expenses	-	-	-	-	-	-	-	(933)	(933)
Other expenses and taxes (d)	707	9	61	51	19	31	6	(6,824)	(5,940)
Net result	\$ 2,467	\$ 868	\$ (2,870)	\$ (57)	\$ (57)	\$ (119)	\$ (246)	\$ (7,757)	\$ (7,771)

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

(b) Includes taxes for \$240.

(c) Includes allowances for Altan Redes for \$850.

(d) Includes reclassification of Operadora de Fondos Nafinsa, S.A. de C.V., from subsidiaries to markets, modifying the structure of income presented in the first three quarters of 2022.

(e) Includes taxes for \$884.

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Consolidated statement of comprehensive income

The net result generated by the Institution for the periods from January 1 to December 31, 2023 and 2022, amounted to \$(8,384) and \$(7,890), respectively.

These results are the product of the generation of net income of the main business lines of the Institution for \$43,632 and \$30,194, at the closing of 2023 and 2022, respectively, mainly from loan portfolio and repurchase/resell transactions, increase in income for interests from one year to the next corresponding to an increase in the volume of the foregoing transactions.

Interest expense amounted to \$37,382 and \$25,089 at the closing of 2023 and 2022, respectively, mainly originating from interests and returns payable in repurchase/resell transactions as well as interests for time deposits.

The preventive allowance for credit risks, at the closing of 2023 and 2022 amounted to \$4,435 and \$7,512, respectively. The variation is mainly generated by a decrease in the additional allowance of Fideicomiso 11480 due to two combined effects: 1) a further release of the allowance during 2023, and 2) a lesser setting up in same year. As regards the first effect, in 2023, an increase is observed of approximately 30% in the amount of guarantees claimed by financial intermediaries leveraged with the additional allowance and, for the same reason, upon settlement they are released thereof. In follow-up of the second effect, during 2022 set ups were made to the additional allowance to cover the shortfall of prior years and for leveraging new programs, conditions unobserved during 2023. (See Note 9d).

As of the closing of years 2023 and 2022, fees and rates collected and paid for an amount of \$4,698 and \$4,343, respectively, were recognized, highlighting for their importance fees collected for the operation of guarantees granted.

Caption Other income (expenses) of the 2023 operation amounts to \$(10,772), while in 2022 the total was \$(7,351). The main concept comprising this caption in 2023 and 2022 correspond to the utilization of the sovereign guarantee of the Federal Government for which the Institution paid to the Ministry of Finance and Public Credit the amounts of \$11,004 and \$6,824, respectively.

Other comprehensive income for year 2023 amount to \$824, comprised by valuation of financial instrument to collect and sell for (\$112), valuation of cash flows hedged instruments of \$288, remeasurement of defined benefits for \$636 and the valuation effect of associated companies for \$12.

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Financial margin

For years ended December 31, 2023 and 2022, the financial margin of the consolidated statement of comprehensive income is analyzed as follows:

2023	Total	Local currency	Foreign currency
Interest income:			
Cash interests and cash equivalents:			
Banks	\$ 1,214	\$ 745	\$ 469
Restricted or pledged	2,958	2,220	738
	<u>\$ 4,172</u>	<u>\$ 2,965</u>	<u>\$ 1,207</u>
Interest from loan portfolio with credit risk Stage 1:			
Commercial loans	4,290	1,573	2,717
Loans to Credit Institutions	\$ 15,677	\$ 15,468	\$ 209
Loans to government entities	1,601	1,492	109
Consumer loans	1	1	-
Housing loans	4	4	-
	<u>\$ 21,573</u>	<u>\$ 18,538</u>	<u>\$ 3,035</u>
Interest from loan portfolio with credit risk Stage 3:			
Commercial loans	12	-	12
Loans to Credit Institutions	33	33	-
Loans to government entities	\$ -	\$ -	-
Consumer loans	-	-	-
Housing loans	1	1	-
	<u>46</u>	<u>34</u>	<u>12</u>
Interest and returns receivable in repurchase/resell transactions:	24,986	24,986	-
	<u>\$ 24,986</u>	<u>\$ 24,986</u>	<u>\$ -</u>
Fees receivable from loan transactions (adjustment to return):			
Commercial loans	633	633	-
Interest and returns from margin accounts			
	25	25	-
Interest and returns receivable from collateral transactions OTC	\$ -	\$ -	-
Interest and returns from financial instruments	3,584	3,194	390
Income from hedging operations	\$ (11,450)	\$ (9,144)	\$ (2,306)
Premium on debt placement	12	12	-
Dividends from financial instruments qualifying as equity			
financial instruments	51	51	-
Gain on valuation	-	-	-
	<u>(7,145)</u>	<u>(5,229)</u>	<u>(1,916)</u>
Total income from interests	<u>43,632</u>	<u>41,294</u>	<u>2,338</u>
Interest expense:			
Interest from time deposits	\$ 15,987	\$ 15,328	\$ 659
Interest expense from interbank loans and other entities	3,138	2,173	965
Interest and returns payable from repurchase/resell transactions	21,375	21,261	114
Expense from hedging transactions	(11,801)	(8,602)	(3,199)
Interest, from transaction costs and discounts payable for issue of financial instruments qualifying as liabilities	8,507	7,071	1,436
Loss on valuation	176	39	137
Total interest expense	<u>37,382</u>	<u>37,270</u>	<u>112</u>
Financial margin	<u>\$ 6,250</u>	<u>\$ 4,024</u>	<u>\$ 2,226</u>

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2022	Total	Local currency	Foreign currency
Interest income:			
Cash interest and cash equivalents:			
Banks	\$ 148	\$ -	\$ 148
Restricted or pledged	1,423	1,317	106
	<u>\$ 1,571</u>	<u>\$ 1,317</u>	<u>\$ 254</u>
Interest from loan portfolio with credit risk Stage 1:			
Commercial loans	\$ 2,893	\$ 859	\$ 2,034
Loans to financial entities	9,899	9,727	172
Loans to government entities	1,124	1,057	67
Consumer loans	1	1	-
Housing loans	3	3	-
	<u>\$ 13,920</u>	<u>\$ 11,647</u>	<u>\$ 2,273</u>
Interest on loan portfolio with credit risk Stage 3:			
Commercial loans	\$ -	\$ -	-
Loans to financial entities	106	103	3
Loans to government entities	-	-	-
Consumer loans	-	-	-
Housing loans	-	-	-
	<u>\$ 106</u>	<u>\$ 103</u>	<u>\$ 3</u>
Interest and returns receivable on repurchase/resell transactions:			
In repurchase/resell transactions	\$ 18,863	\$ 18,863	-
Commissions from loan transactions (return adjustment):			
Commercial loans	\$ 129	\$ 129	-
Interest and returns from margin accounts	9	9	-
Interest and returns from collateral in OTC transactions	1,429	1,429	-
Interest and returns from financial instruments	1,897	1,469	428
Income from hedging transactions	(7,784)	(6,453)	(1,331)
Premium on debt placement	12	12	-
Dividends from financial instruments qualifying equity financial instruments	42	42	-
Gain on valuation	-	-	-
	<u>(4,266)</u>	<u>(3,363)</u>	<u>(903)</u>
Total interest income	<u>\$ 30,194</u>	<u>\$ 28,567</u>	<u>\$ 1,627</u>
Interest expense:			
Interest of time deposits	9,565	9,430	135
Interest payable on interbank loans and other entities	1,845	1,419	426
Interest and returns payable on repurchase/resell transactions	5,812	5,195	617
Expenses from hedging transactions	16,190	16,153	37
Interest, transactions costs and discounts payable on issue of financial instruments qualifying as liabilities	(8,451)	(5,709)	(2,742)
Loss on valuation	128	7	121
	<u>\$ 25,089</u>	<u>\$ 26,495</u>	<u>\$ (1,406)</u>
Total interest expense	<u>\$ 25,089</u>	<u>\$ 26,495</u>	<u>\$ (1,406)</u>
Financial margin	<u>\$ 5,105</u>	<u>\$ 2,072</u>	<u>\$ 3,033</u>

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Commissions and fees collected and paid

For years ended December 31, 2023 and 2022, commissions and fees collected and paid, are analyzed as follows:

<u>2023</u>	<u>Total</u>	<u>Local currency</u>	<u>Foreign currency</u>
Commissions and fees collected:			
Loan transactions	\$ 49	\$ 49	\$ -
Trust activities	10	10	-
Assets under custody or administration	440	440	-
Other	4,386	4,372	14
	<u>4,885</u>	<u>4,871</u>	<u>14</u>
Commissions and fees paid:			
Loans obtained	22	-	22
Debt placement	1	1	-
Other (services)	165	162	3
	<u>\$ 188</u>	<u>\$ 163</u>	<u>\$ 25</u>
<u>2022</u>	<u>Total</u>	<u>Local currency</u>	<u>Foreign currency</u>
Commissions and fees collected:			
Loan transactions	\$ 447	\$ 447	\$ -
Trust activities	395	395	-
Assets in custody or administration	7	7	-
Other	3,698	3,677	21
	<u>4,547</u>	<u>4,526</u>	<u>21</u>
Commissions and fees paid:			
Loans received	23	-	23
Debt placement	2	2	-
Other (services)	179	175	4
	<u>\$ 204</u>	<u>\$ 177</u>	<u>\$ 27</u>

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Financial intermediation result

For years ended December 31, 2023 and 2022, Financial intermediation result is comprised as follows:

<u>2023</u>	<u>Total</u>	<u>Local currency</u>	<u>Foreign currency</u>
Financial intermediation result:			
Result from valuation of financial instruments at fair value:			
Negotiable financial instruments	\$ (1,103)	\$ (1,103)	\$ -
Derivative financial instruments for trading purposes	42	42	-
Derivative financial instruments for hedging purposes	31	1,490	(1,459)
Allowance for expected losses on financial instruments	120	120	-
	<u>(910)</u>	<u>549</u>	<u>(1,459)</u>
Gain (loss) on purchase/sale of derivative financial instruments			
Negotiable financial instruments	63	63	-
Financial instruments for collecting and selling	(39)	1	(40)
Financial instruments for collecting principal and interest (securities)	9	9	-
Derivative financial instruments for trading purposes	107	107	-
	<u>140</u>	<u>180</u>	<u>(40)</u>
Gain (loss) from purchase/sale of foreign currencies	236	-	236
Intermediation result	\$ <u>(534)</u>	\$ <u>729</u>	\$ <u>(1,263)</u>
<u>2022</u>	<u>Total</u>	<u>Local currency</u>	<u>Foreign currency</u>
Result from valuation of financial instruments at fair value:			
Negotiable financial instruments	\$ (759)	\$ (759)	\$ -
Derivative financial instruments for trading purposes	27	20	7
Derivative financial instruments for hedging purposes	-	(1,376)	1,376
Allowance for expected loan losses on investments in financial instruments	(187)	(187)	-
	<u>(919)</u>	<u>(2,302)</u>	<u>1,383</u>
Result from purchase/sale of financial instruments and derivative financial instruments:			
Negotiable financial instruments	250	250	-
Financial instruments for collecting and selling	(14)	-	(14)
Financial instruments for collecting principal and interests (securities)	(47)	(47)	-
Derivative financial instruments for trading purposes	246	246	-
	<u>435</u>	<u>449</u>	<u>(14)</u>
Result from purchases of foreign currency	59	-	59
Intermediation result	\$ <u>(425)</u>	\$ <u>(1,853)</u>	\$ <u>1,428</u>

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Other operating income (expenses)

For years ended December 31, 2023 and 2022, caption other operating income (expenses) are analyzed as follows:

2023	Total	Local currency	Foreign currency
Other operating income (expenses):			
Other recoveries	\$ 96	\$ 96	\$ -
Impact on allowance for expected credit losses	(1,761)	(1,761)	-
Result on sale of foreclosed assets	1	1	-
Allowance on impairment of foreclosed assets	(144)	(144)	-
Income from personal loans	35	35	-
Lease income	33	33	-
Other items of operating income	2,628	2,627	1
Other items of operating expenses (a)	(11,660)	(11,660)	-
	\$ (10,772)	\$ (10,773)	\$ 1
2022	Total	Local currency	Foreign currency
Other operating income (expenses):			
Other recoveries	\$ 75	\$ 75	\$ -
Impact on the allowance of expected credit losses	(1,249)	(1,249)	-
Result on sale of foreclosed assets	30	30	-
Allowance for impairment of foreclosed assets	(501)	(501)	-
Income from personal loans	34	34	-
Lease income	28	28	-
Other items of operating income (expenses) (b)	(5,768)	(5,769)	1
	\$ (7,351)	\$ (7,352)	\$ 1

- a) On December 15, 2023, the Institution settled the amount of \$11,004, in accordance with official letter number 368.-C.-032/2023 dated December 11, 2023, issued by the Under Ministry of Public Finance and Public Credit, whereby the Federal Government orders the Institution to make such payment under the legal nature of government charges for the granting of the sovereign guarantee of the Federal Government.
- b) On September 26 and November 28, 2022, the Institution paid taxes for \$1,140 y \$5,684, respectively, according to the official communications number 368.-119/2022 dated September 23, 2022 and number 368.-168/2022 dated November 25, 2022 issued by the Sub ministry of Finance and Public Credit, whereby the Federal Government orders the Institution to make such payments based on the legal nature of government charges for the granting of the sovereign guarantee of the Federal Government.

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Administration and promotional expenses

For years ended December 31, 2023 and 2022, caption administration and promotional expenses, is comprised as follows:

2023	Total	Local currency	Foreign currency
Administrative and promotional expenses	\$ 3,848	\$ 3,848	\$ -
Unidentified deposits	-	-	-
	\$ 3,848	\$ 3,848	\$ -
2022	Total	Local currency	Foreign currency
Administrative and promotional expenses	\$ 2,934	\$ 2,934	\$ -
Unidentified deposits	3	3	-
	\$ 2,937	\$ 2,937	\$ -

Financial ratios (unaudited)

The main quarterly financial ratios of the Institution for years ended December 31, 2023 and 2022, are as follows:

2023	First	Second	Third	Fourth
Delinquency rate	2.82	2.38	2.00	1.79
Past-due loan portfolio coverage ratio	278.27	351.61	430.85	469.51
Operating efficiency (administrative and promotional total average)	0.76	0.77	0.78	0.60
ROE (annualized quarterly net income/average stockholders' equity)	13.98	2.17	6.21	(109.42)
ROA (annualized quarterly net income/average total assets)	0.95	0.15	0.42	(7.17)
Net capital/assets subject to credit risk	24.87	27.25	27.20	26.21
Net capital/assets subject to credit, market and operational risk	16.57	17.84	19.49	18.37
Liquidity (liquid assets/liquid liabilities)	204.86	209.33	188.39	356.44
Financial margin for the year adjusted for credit risks/average productive assets	6.37	1.75	1.42	4.03
2022	First	Second	Third	Fourth
Delinquency rate	2.81	4.16	3.74	2.78
Past-due loan portfolio coverage ratio	264.28	212.56	249.07	260.36
Operating efficiency (administrative and promotional total average)	0.39	0.65	0.44	0.75
ROE (annualized quarterly net income/average stockholders' equity)	5.80	(2.37)	(10.94)	(236.67)
ROA (annualized quarterly net income/average total assets)	0.49	(0.20)	(0.85)	(5.74)
Net capital/assets subject to credit risk	30.75	30.07	25.31	23.13
Net capital/assets subject to credit, market and operational risk	21.21	20.90	18.05	16.58
Liquidity (liquid assets/liquid liabilities)	290.65	196.39	283.48	406.44
Financial margin for the year adjusted for loan credit risk/average productive assets	1.00	(7.22)	(20.91)	(5.15)

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24. COMMITMENTS AND CONTINGENCIES

Lease

Leases provide periodic rental adjustments, based on changes in various economic factors. The Institution has commitments for non-cancellable leases. Total rental expense for years ended December 31, 2023 and 2022, amounted to \$4 and \$4, respectively.

Lawsuits and litigation

In the normal course of operations, the Institution has been subject to some lawsuits and claims, which are not expected to have a material adverse effect on the financial position and results of its future operations. In such cases that represent a probable loss or where a cash outflow is estimated, the necessary provisions have been set aside. It is worth mentioning that to date there are no litigations on tax matters.

As of December 31, 2023 and 2022, amounts claimed in lawsuits for recovery of loan portfolio amounts to \$5,093 and \$6,968, respectively, whereas lawsuits and claims brought against the Institution related to banking and/or trust transactions, for the same periods, amount to \$457 and \$472, respectively. Likewise, as of December 31, 2023 and 2022, there are labor lawsuits for \$ 123 and \$145, respectively.

According to the current procedural status of such lawsuits, Management considers that final resolution of the claims and lawsuits previously described will not have a significant effect on the financial position of the Institution.

25. RISK MANAGEMENT (unaudited information)

Local 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 Credit 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 nonquantifiable.

To keep up with the implementation of the requirements from the various provisions of a prudential nature in matters of risk management, credit and internal control, applicable to Credit Institutions, as well as with what is indicated by regulatory bodies in Mexico for the prevention of money laundering, the Institution has sought to implement international standards from a systematic and comprehensive 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 financial instruments for collecting and selling portfolios. In general, the methodology being applied is the historical simulation.

The VaR analysis has the purpose of estimating potential losses arising from changes to the risk factors that influence on the valuation or the expected results of active transactions, such as interest rates, exchange rates, price indexes.

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From the aforementioned methodology, 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.
- A year of historical information on the risk factors is considered.

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

In addition to the VaR information, sensitivity measures are calculated, and stress tests are carried out.

Back testing 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.

Currently, the following limits are monitored on a daily basis:

- **Value at risk:** based on the capital allocated to market risks.
- **Regulatory capital:** based on the rules for the capitalization requirements of the full-service banking, the domestic Credit Institutions, and the development banking institutions.
- **Notional values:** in reference 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 period between January to December 2023 is of 58.48, representing 0.20% of net capital at the end of December 2023.

Markets	
VaR amount \$58.48 million pesos	
Trading	Treasury
VaR \$21.80 million pesos	Var \$36.68 million pesos

2. Assets and liability management

Asset and liability management refers to the handling of risks that affect the Institution's balance sheet. It involves the management techniques and tools necessary to identify, measure, monitor, control and manage financial risks (liquidity and interest-rate) to which such balance sheet is exposed and is intended to maximize its market-risk-adjusted performance, and thus to optimize use of the Institution's capital.

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3. Liquidity ratio

The liquidity risk that affects a banking institution is classified, in general, into three categories:

- Market liquidity risk: It is the possibility of economic loss due to the difficulty in disposing or covering 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: It represents the difficulty of an institution to obtain the necessary results to settle its liabilities, through revenue from its assets or through 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 extreme 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 for Comprehensive Risk Management, developed a Contingency Financing Plan and stress liquidity scenarios, which set forth various measures to monitor, quantify and follow up the risks listed above, as well as an action plan at the institutional level, in case of potential liquidity problems.

4. Maturity profile in local and foreign currency

In order to manage liquidity risk, currently, Nafin uses the *maturity gap model*, which measures the gap between assets value and liabilities value with common maturity for a given time period. Such model considers the following methodology:

- Transactions at fixed and floating rate: The number of days between the analysis date and the maturity date is considered. If there are partial repayments of principal, each one of them will be located in the corresponding band, according to its payment date.
- Interest will be located in the band corresponding to the term in which it is expected to be collected or paid, and only the next known coupon will be considered.
- Once the classification of items in the statement of financial position and the establishment of bands (time periods) have been carried out, cash flows are generated by band.

Such model is run both for the Institution's assets and liabilities denominated in local currency, as well as for those in foreign currencies.

5. Estimated gain or loss from advanced sale

To comply with the Provisions of Article 81 of Section I, subparagraph (b) of the Provisions, below, is the estimate of the gain or loss from advance sales of assets under normal and extreme scenarios.

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At the end of December 2023, considering the crisis scenarios in the portfolio of corporate trading and investment to maturity, should there be a situation similar to that on November 9, 2016, it would lead to a loss of \$317.59, equivalent to 2.07% of the position value.

Portfolio local currency	Position	Advanced sale	Crisis scenarios (millions of pesos)							
			Dec-21-94	Aug-25-98	Sep-11-01	Sep-19-02	Apr-28-04	Oct-16-08	Nov-09-16	Mar-11-20
Corporate	6,377.72	(36.65)	27.98	(50.67)	(46.72)	(18.11)	(15.19)	(5.88)	(36.65)	(26.96)
Investment to maturity	8,997.18	(280.94)	(71.09)	(90.07)	1.23	(40.96)	(112.95)	(77.73)	(280.94)	(171.56)

At the end of December 2023, considering the abovementioned crisis scenarios in the London portfolio of investment to maturity, the greatest loss would be observed in the event of a situation similar to that in November 2016, generating a loss of \$171.8, equivalent to 2.55% of the position value.

Portfolio FC	Position	Advance Sale	Crisis scenarios							
			Sep-11-2001	Sep-19-2001	Apr-28-2004	Dec-21-2019	Aug-25-2008	Oct-10-2008	Nov-11-2016	Mar-11-2020
Financial instruments to collect or sell	(5,945.09)	(130.99)	(17.79)	(70.08)	(82.33)	(31.38)	(27.62)	(25.17)	(130.99)	(91.13)
Financial instruments to collect principal and interest	(337.49)	(22.77)	(8.38)	(3.02)	(0.1)	(77.08)	(8.1)	(9.84)	(22.77)	(2.38)

6. Credit risk

Credit risk is defined as the possibility that a counterparty or borrower fails to comply in time and form with its credit obligations; it also refers to the impairment of an investment determined by the change in the credit quality of some counterparty or borrower, without necessarily resulting in nonpayment.

7. Expected loss

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

Based on the allowance obtained under this methodology, the following assumptions are also established:

- The portfolio of former employees is excluded, for the purpose of directly measure the effect of expected losses of the portfolio with risk from the private sector.
- The contingent portfolio is not considered since the credit risk of this program is managed separately.
- No additional reserves are included.
- The financial agent portfolio is not considered as this is a non-risk portfolio.
- The past-due portfolio is considered, since according to the portfolio rating methodology based on the expected loss, the occurrence of an event of default does not imply that the expected loss is reserved at 100%.

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Under the aforementioned assumptions, at the closing of December 2023, total portfolio amounts to \$229,035, whereas the expected loss from the loan portfolio amounts to \$5,392, equivalent to 2.35% of total portfolio.

Expected Loss Estimate (Millions of pesos)			
Portfolio	Portfolio balance	Expected Loss	% Expected Loss
Excluded	-		
A	219,699	940	0.43%
B	4,272	80	1.87%
C	-	-	0.00%
D	997,451	284,848	29.14%
E	4,087	4,087	100.00%
Rated	229,035	5,392	2.35%
Total	229,035	5,392	2.35%

8. Unexpected losses

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

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

In November 2007, the CAIR concluded that, among methodologies proposed to estimate 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 the internal Basel II ratings, according to the following:

- The similarity of existing concepts between the proposed economic methodology and the estimated capital credit risk requirement based on the Basel II basic approach. This approach allows institutions to estimate with internal methods the capital requirement necessary to support their risk.
- The high levels of correlation and similarity in the average capital requirement observed during a year of internal implementation of the proposed loan portfolio unexpected loss methodologies.

It was also 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 additional information in the event of 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 closing of December 2023, the estimate of unexpected loss under the economic approach amounts to \$19,372, and the credit VaR amounts to \$21,018, representing 9.2% of the risk portfolio.

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9. Counterparty risk and diversification

At the Institution, a comprehensive control of counterparty risks is exercised, applying the established loan exposure limits. These limits consider the transactions throughout the entire balance sheet, that is, both financial markets and loan portfolio. The methodology applied is consistent with the General Rules for Diversification of Risks in Performing Active and Passive Transactions Applicable to Credit Institutions.

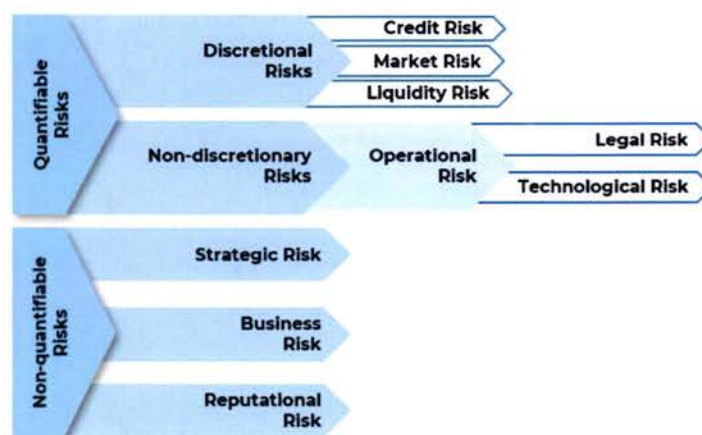
At the closing of December 2023, no economic group concentrates credit risk above the maximum financing limits. As of the same date, the following number of financing operations that exceeds 10% of basic capital individually is as follows:

Nbr. of Financings	Total Amount	Percentage of Capital
32	226,979	820.3%

The amount of financing that is maintained with the three main debtors based on Article 60 of the CUB amounts to \$12,358.

10. Operational risk and non-quantifiable risks

The risks to which a financial institution is exposed are classified into two broad categories: quantifiable and non-quantifiable. Non-quantifiable risks are in turn divided into three types.



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

- Operational risk: potential losses arising from failures or deficiencies of internal controls, due to errors in the processing and storage of transactions.
- Technological risk: potential losses arising from damages, interruption, alteration or failures resulting from the use or reliance on hardware, software, systems, applications, networks and any other information distribution channel in the provision of banking services with customers of the Institution that result in errors in the processing and storage of transactions or in the transmission of information.

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- Legal risk: potential losses arising from non-compliance with applicable legal and administrative provision, the issuance of unfavorable administrative and judicial resolutions and the application of sanctions, in relation to the transactions carried out by the institutions.

Non-quantifiable risks are unforeseen events for which no statistical basis can be formed to measure potential losses, among which are the following:

- Strategic risk: potential losses due to failures or 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.
- Reputational risk: potential losses in the carrying out the activity of the Institution caused by the impairment in perception that the different parties have, both internal and external, on its solvency and feasibility.

The purpose of operational risk and non-quantifiable risks management is to formally establish the rules and policies necessary to systematically and efficiently perform the identification, measurement, monitoring, limitation, control, information and disclosure of non-discretionary and non-quantifiable risks. Another purpose is to ensure the timely identification of the capital and resources requirements arising from such risks.

The qualitative analysis for the identification of risk concentrations stems from processes management under ISO Standard 9001-2015.

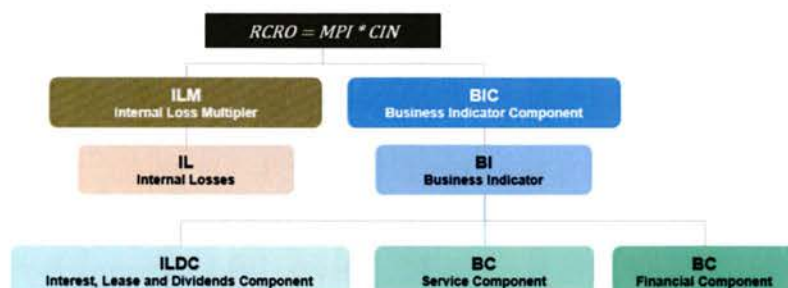
In relation to the scope and nature of information systems and measurement of operational risks and their reports, the Institution uses the application system called Operational Risk Tool, to which the information of results obtained from operational risk monitoring is incorporated, and internal and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

Reports related to the operational risk management (including technological and legal) are made in the CAIR 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, for the purpose obtaining the Capital Requirement for Operational Risk applies the Business Indicator Method provided by the Banking Commission under the General Provisions Applicable to Credit Institutions, performs the calculation taking into account the following formula:



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Non-discretionary risks: Operational Risk

One of the methodologies used for operational risk management (qualitative) consists of the Institutional Methodology of Operational Risk, based on a self-assessment or scorecard that considers six risk factors: regulatory framework, transaction, person, technological, relationship (between customers and suppliers) and information security.

Additionally, potential risks of each process are identified, classified and rated based on the methodology defined by the Banking Commission and the result is forwarded in a regulatory annual report called “Estimating Operational Risk Levels”. For residual risks located in quadrant nine actions and/or controls for their management are defined with those responsible for the process to which they belong. And tolerance levels are set down for operational risks identified in the processes.

Through the application of methodologies, the business areas and those responsible for the processes identify and assess operational risks associated with their processes, obtaining the following ratings:

- Inherent risk rating. Corresponds to the risk involved in the process before applying controls.
- Residual risk rating. Corresponds to the remaining risk once controls are applied over the process.
- Nature risk index. This is a rating inherent for own activities and before applying controls over the process.
- Operating efficiency risk index. This is the rating once controls are applied over the process.

The quantitative analysis is performed for economic loss events due to operational risk occurring within the Institution, whose information is furnished by the owners of the processes involved. These events are classified in accordance with the methodology defined by the Banking Commission.

Non-discretionary risks: Technological Risk

The technological risk methodology for identifying, quantifying, and managing this risk is carried out through computer processes and it is based on five indicators:

- % Security level for access to Nafin network.
- % Detection and blocking of viruses to Nafin network.
- % Level of availability for critical application services.
- % Level of availability for non-critical application services.
- % Recovery of critical services under disaster contingency drill (drill DRP action plan).

It is monitored monthly and carried out by comparing results obtained for each indicator and compliance for the set goal. Based on results obtained, and in the event of noncompliance with the set goal, areas of opportunity are identified to enable the Institution to take measures according to the findings.

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Legal risk

There is an internal methodology for estimating the recording of potential losses in terms of legal risk, based on success or failure expectations and on the procedural stage in which lawsuit is found in five bands:

- Without sufficient elements
- 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, the CAIR is informed at least quarterly.

As a monitoring control of risks and the result of potential losses, the CAIR is informed at least quarterly by type of lawsuit:

- Labor nature
- Litigation portfolio
- Trust
- Commercial
- Treasury and stock exchange transactions

Risks on the assets of the Institution:

Are those resulting from claims or unforeseen external events that cannot be associated with a probability of occurrence and economic losses may be transferred to external risk-taking entities.

Type of Risk	Definition	Example
Claim	Risk of loss for catastrophic natural events that may interrupt the operation or affect the property assets of the Institution.	Fire, volcanic eruption, earthquake, hurricane, among other.
External	Risk of loss caused by external entities to the Institution.	Vandalism protesters' sit-ins, etc.

For this type of risk, follow-up is carried out considering the following criteria:

Type of Asset	Definition	Example
Property Assets	Institutional Program for Property Assets	Payment of premiums
Foreclosed Assets	Insurance	Deductible in the event of materialization

Unquantifiable risks

The methodologies implemented are in accordance with are in accordance with the Provisions. A brief description is provided below:

- **Strategic risk:** At the Institution, the Risk Management Office manages the Institution's strategic risk through the Desired Risk Profile by measuring, monitoring and controlling the different types of risk to which it is exposed securing robust risk measures which allow to delimit the risk appetite of the Institution, aligned with the Institutional Strategic Plan.

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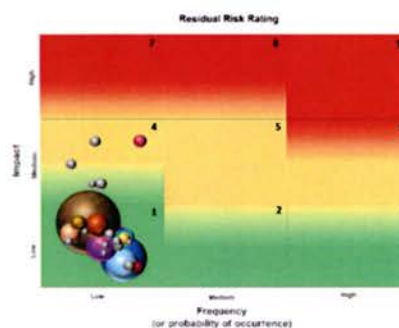
- **Business risk:** In order to manage this risk, certain indicators are monitored to help identify the possible materialization of the risks that could affect the Institution.
 - As a result of movements in the financial sector
 - Economic cycle

- **Reputational risk:** To manage this risk, the General Office of Institutional Communication, the General Office of Marketing and Business Positioning, the General Office of Risk Management and the General Office of Information Security defined an Institutional Communication Plan (the Plan). This Plan considers addressing the minimum requirements issued by the Banking Commission in the Provisions in matters of reputational risk. The General Office of Institutional Communication follows on the events that could affect the internal perception of the Institution, whereas the General Office of Marketing and Institutional Business Positioning follows up on the events that could affect the existing external perception of the Institution. As a control of this risk, the CAIR is informed at least quarterly of the notes.

Assessments of Operational Risk

As of the closing of year 2023, the operational risk ratings at the Institution based on the Standard Operational Risk Methodology of the Banking Commission (R28), are the following:

Type of Operational Risk	Inherent Risk	Residual Risk	#Risks	%
Execution, delivery and processes management/Reception, execution and maintenance of operations	5	1	377	35.8%
Execution, delivery and processes management/Losses from non-compliance with regulations	5	1	198	18.8%
Execution, delivery and process management/Follow-up and presentation of reports	1	1	100	9.5%
Business incidences and systems failures/Software	4	1	88	8.3%
Execution, delivery and process management/Process deficiencies in customer acceptance, documentation and contracting	5	1	53	5.0%
Labor relations and workplace safety/Deficiency in management of labor relations	5	1	36	3.4%
Business incidences and systems failures/Interruption, supply incidences	4	1	32	3.0%
Execution, delivery and process management/Errors in management of customer accounts	4	1	21	2.0%
Execution, delivery and process management/Failures of counterparties different from customers	5	1	16	1.5%
Internal fraud/Theft and internal fraud	4	1	16	1.5%
External fraud/Systems security	8	4	16	1.5%
External events/Events and natural	4	4	12	1.1%
External events/Events or claims caused	7	4	11	1.0%
Internal fraud/Unauthorized activity	5	4	10	0.9%
External fraud/Assault and deft	9	1	2	0.2%
Other	5	1	66	6.3%
			1,054	100.0%



*The diameter of the spheres of the map as well as the % of the table, is determined by the recurrence of this type of operational risk among the different processes.

In accordance with the Banking Commission’s methodology, no residual operational risk was registered in the red zone, that is, quadrant nine (high frequency and impact), thus, the risks are within the levels of tolerance established.

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Operational Risk Economic Loss Events

During year 2023, economic losses were reported with a total economic impact of \$312.19 million pesos*.

Type of Risk	Type of economic loss	# Incidents	Amount of economic loss	Notes
	Expected	11	5.32 MP	Economic losses the applied to the allowance for Operational Risk
Operational Risk *	Unexpected	1	306.87 MP	Economic loss for omission in ISR withholding of 4.9% for interests generated by Cayman Islands branch since 1997, given the faculties of the tax authorities to impose sanctions which expire in a term of five years (Art.67 of the Tax Federal Code) regularized payment of ISR in from January 2018 to February 2023 (62 months), generating unexpected losses for surcharges and updating. Given the economic impact of the Operating Incident in the Tax Regulation and Operational Process exceeded the amount available in the Allowance for Operational Risk, accounting posting were made with an Unexpected Operational Risk Loss, affecting the equity of the Institution.
		12	312.19 MP	

*Preliminary information with figures in millions of pesos, some amounts in \$0.00 may represent figures divided into one million become very small, reason for which they are not visible in the table.

During 2023, twelve events were registered with a cumulative impact for \$312.19. The latter represents a decrease in the number of events and an increase in the accumulated amount of economic losses from operational risk in the Institution compared to year 2022. It should be mentioned that the main reason of the increase corresponds to an economic loss for an omission in the ISR withholding of 4.9% for interests generated by the Cayman Islands branch since 1997 with an economic impact of \$306.87, representing 98% of the accumulated losses during year 2023.

Indicators of Technological Risk

During year 2023, all technological risk indicators complied with the goal set.

Periodicity	Description of Indicator T.R.	Goal
Monthly	% Security level for access to Nafin network	100 %
	% Detection and blocking of viruses to Nafin network	100 %
	% Level of availability for critical application services	95 %
	% Level of availability for non-critical application services	95 %
Annual	% Recovery of critical services under disaster contingency drill (drill DRP action plan)	85 %

Source: Office of Information Technology

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Result of Legal Risk

At the closing of December 2023, the status of the recording of potential legal risk losses in the Institution's accounting records is as follows:

Registration of Potential Loss in the Area of Legal Risk			
Type of Lawsuit	Contingency	Provision	Results
Labor Nature	70.33	42.95	17.30
Litigation Portfolio	11.28	9.82	0.00
Trusts	196.03	68.51	29.52
Treasury and Stock Trading	0.00	0.00	0.00
Total	277.64	121.28	46.82

* Figures in millions of pesos, valued at the Exchange rate for USD: 16.9666

Source: SIF-Data Warehouse

The status as of the end of the year is as follows:

- A contingency for \$277.65 million pesos, which presents an increase of 2.75% (\$7.43 million pesos) with respect to the previous year.
- A provision for \$121.29 million pesos, which presents an increase of 7.82% (\$8.8 million pesos) with respect to the previous year.
- An effect on results for \$46.82 million pesos, which presents an increase of 60.67% (\$17.68 million pesos) with respect to the previous year.

The movement in the contingency, provision and results arises mainly from the updating in the success expectations of some lawsuits and, in some cases, of the amounts claimed according to the law, mainly in labor lawsuits, and the fluctuation in the exchange rate with respect to the previous year, as well as the status of each lawsuit.

Unquantifiable Risks

Result of the impact to property assets of the Institution

In year 2023, there were no claims affecting the property assets of the Institution.

Strategic Risk

In year 2023, indicators defined by Management for this risk have been monitored, through monthly reports, the Desired Risk Profile.

Business Risk

In year 2023, indicators defined by Management for this risk, have been monitored through market risk reports, highlighting that during the year there were no deviations in such set limit.

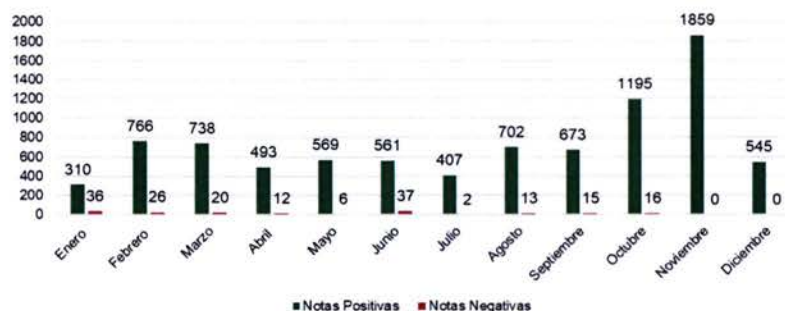
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In years 2022 and 2023, there were no breaches of the established limits.

Reputational risk

During year 2023, the General Office of Marketing and Institutional Business Positioning monitored events that could have affected the perception of the Institution, both internally and externally, on a monthly basis, analyzing all positive and negative notes via printed and electronic means, Internet portals and state information. The results obtained from said monitoring are shown below:



During the year it is observed that in all months the number of positive notes surpassed those negative, even going so far as to observe no negative notes during November and December, highlighting that in year 2023 it was observed that 98% of notes were positive, presenting an increase of 5% with respect to year 2022.

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Leverage ratio

The information related to leverage is disclosed with figures as of December 2023, in compliance with the Resolution that modifies the General Provisions Applicable to Credit Institutions, published in the Official Gazette of the Federation on June 22, 2016, Article 2 Bis 120, Articles 180, 181 and Exhibit 1-O Bis:

TABLE I.1
STANDARDIZED FORMAT FOR DISCLOSURE OF LEVERAGE RATIO

REFERENCE	CAPTION	AMOUNT
Exposures in balance sheet		
1	Items in balance sheet (excluded derivative financial instruments and repurchase/sell agreement and loans of securities but included collateral pledged and recorded in the balance sheet)	632,942
2	(Asset amounts deducted to determine capital of Basilea III Level 1)	- 4,659
3	Exposures in balance sheet (net) (excluded derivative financial instruments and SFT, sum of lines 1 and 2)	628,283
Exposures to derivative financial instruments		
4	Current of replacement associated to all transactions with derivative financial instruments (net of variation margin in admissible cash)	-
5	Amount of additional factors for potential future exposure of all transactions with derivative financial instruments.	1,930
6	Increase for collaterals contributed in derivative financial instruments when such collaterals are derecognized in the balance sheet in accordance with the operating accounting framework	N.A.
7	(Deductions to accounts receivable for margin in variation of cash contributed in cash contributed in derivative financial instruments transactions)	-
8	(Exposure for derivative financial instruments transactions on behalf of customers, in which the liquidating partner does not grant his guarantee in the event of non-compliance with the obligations of the Central Counterparty)	N.A.
9	National cash amount is adjusted for credit derivative financial instruments subscribed	N.A.
10	(Offsetting made to notional cash adjusted for credit derivative financial instruments subscribed and deductions of additional factors for credit derivative financial instruments subscribed)	N.A.
11	Total exposures to derivative financial instruments (sum of lines 4 to 10)	1,930
Exposures for financing transactions with securities		
12	Gross SFT assets (with no offsetting recognition) after adjustments for sales accounting transactions	47,266
13	(SFT accounts payable and receivable offset)	-
14	Counterparty risk exposure for SFT	251
15	Exposures for SFT acting on behalf of third parties	-
16	Total exposures for financing transactions with securities (sum of lines 12 to 15)	47,517
Other exposures out of balance sheet		
17	Out of balance exposure (gross notional amount)	213,230
18	(Adjustments for conversion to credit equivalents)	- 191,907
19	Out of balance items (sum of lines 17 and 18)	21,323
Total capital and exposures		
20	Level 1 capital	28,136
21	Total exposures (sum of lines 3, 11, 16 and 19)	699,053
Leverage coefficient		
22	Basel III leverage coefficient	4.02%

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TABLE II.1
COMPARATIVE OF TOTAL ASSETS AND ADJUSTED ASSETS

REFERENCE	DESCRIPTION	IMPORTE
1	Total assets	693,573
2	Adjustment for investments in banking institutions, insurance or commercial consolidating but remain out regulatory consolidation	- 4,659
3	Adjustment relative to fiduciary assets recognized in balance sheet in accordance with accounting framework, but excluded from measure from the exposures of the leverage coefficient	N.A.
4	Adjustment for derivative financial instruments	- 11,434
5	Adjustment for repurchase/sell agreement transactions and loan in securities	251
6	Adjustment for items recognized in memorandum accounts	21,323
7	Other adjustments	-
8	Exposure of the leverage coefficient	699,053

Figures rounded to millions of pesos.

TABLE III.1
RECONCILIATION BETWEEN TOTAL ASSETS AND EXPOSURE IN BALANCE SHEET

REFERENCE	CONCEPT	AMOUNT
1	Total assets	693,573
2	Derivative financial instruments transactions	- 13,365
3	Repurchase/sell agreements and loans in securities	- 47,266
4	Fiduciary assets recognized in balance sheet in accordance with accounting framework, but excluded from the measure of the exposure of the leverage coefficient	N.A.
5	Exposures in the balance sheet	632,942

TABLE IV.1
MAIN CAUSES OF THE MOST IMPORTANT VARIATIONS BEFORE THE ELEMENTS
(NUMERATOR AND DENOMINATOR) OF THE LEVERAGE RATIO

CONCEPT/QUARTER	Sep 23	Dec 23	VARIATION (%)
Basic Capital	28,429	28,136	-1.0%
Adjusted Assets	583,308	699,053	19.8%
Leverage	4.87%	4.02%	-17.4%

26. REGULATORY PRONOUNCEMENTS RECENTLY ISSUED BY THE MEXICAN FINANCIAL REPORTING STANDARDS BOARD

New accounting pronouncements for year 2024 and subsequent years that take effect on the dates mentioned below:

Improvements that generate accounting changes

NIF C-10, *Derivative financial instruments and hedging relationships* - Necessary changes were made to include the accounting treatment of hedging of equity financial instruments whose valuation at fair value is recognized in OCI in accordance with the provisions in NIF C-2, *Investment in financial instruments*, which converges with IFRS 9, *Financial instruments*.

NIF B-2, *Statement of cash flows*, NIF B-6, *Statement of financial position*, NIF B-17, *Determination of fair value*, NIF C-2, *Investment in financial instruments*, NIF C-16, *Impairment of financial instruments to collect*, NIF C-20, *Financial instruments to collect principal and interest* and INIF 24, *Recognition of the effect of application of new reference interest* – In terms of NIF C-2, an entity shall classify financial instruments to collect or sell (FICS), which are defined by NIFs Glossary as those whose purpose is to collect contractual cash flows for principal and interest, or, obtain a gain on sale thereof when it is convenient; however, it has been observed in practice that such definition may cause a wrong interpretation, since the main purpose of these instruments should be to obtain a gain on the sale, which will take place under optimum market conditions and, in the meantime, collect contractual cash flows, that is, they are held for collecting and selling.

For the above reasons, the term financial instruments to collect or sell for financial instruments to collect and sell under the understanding that in accordance with the business model they seek as objective compliance with both purposes, that is, collect contractual cash flows and sell the financial asset, and in the end no to sell if expected market conditions do not exist, which will not affect the initial classification.

NIF D-4, *Income taxes* – The applicable rate is clarified to recognize assets and liabilities for incurred or deferred income taxes, when there were benefits in tax rates for the period to encourage capitalization of profits (undistributed profits).

Modifications to these NIF improvements take effect starting January 1, 2024, allowing early application.

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The Institution believes that adoption of the improvements mentioned above, taking into consideration current financial structure and operations carried out, could originate certain changes in terms of the valuation, classification and/or presentation in its financial statement and disclosures in their notes. Management is in the process of analyzing said improvements to determine, as appropriate, the effects they may have on its financial information at the time of adoption.



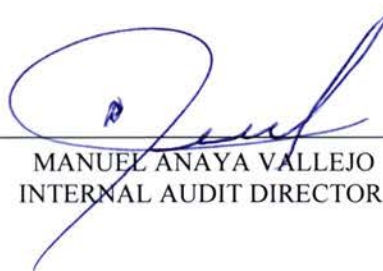
LUIS ANTONIO RAMÍREZ PINEDA
CHIEF EXECUTIVE OFFICER



MARÍA FERNANDA RÚIZ PADILLA
HEAD OF ADMINISTRATION AND
FINANCE UNIT



RAÚL MARTÍNEZ MORÁN
ACCOUNTING AND BUDGET DIRECTOR



MANUEL ANAYA VALLEJO
INTERNAL AUDIT DIRECTOR