2019 ANNUAL REPORT BANCOMEXT

Periférico Sur 4333, Col. Jardines en la Montaña. Tlalpan. México, Ciudad de México, CP. 14210

BANCOMEXT

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There are only Independent Proprietary Counsellors

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Mtra. Georgina Valencia Pacheco	Pending assignment

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Lic. María Elsa Ramírez Martínez	Pending assignment

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Ariel Carrizo Cesar
Marketing and Business Positioning Director

Luis David Fuentes Zendejas
Director of Internal Controller's Office

Maribel García Hernández
Head of the Internal Control Body

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CORPORATE GOVERNMENT

The National Exterior Commerce Bank, S. N. C. is in possession of an internal control system that is built in a corporate government structure, which is formed by the Management Board, also by the different committees that oversee the decision making on the different topics of the institutional operation such as: integral management of risks, credit activity, investment services, human resources and institutional development; computerized systems, auditing and internal control. Furthermore, it has a periodic evaluation that is made by different taxation instances that are supported in the managing of the institution's development.
The establishment and support of the internal control is overseen by the general management board of the institution; also, by its government body and its employees. The fulfillment, supervision, and upgrading of the internal control is a continuous and recurring process in the institution.
On the other hand, the auditing committee is a dependent body of the Management board that oversees the evaluation and tracing of the institutional activity, in the frame of SCI.
Likewise, it is formed by independent counselors and has a role with the commissioners.
On basis of the above, and according to the general and applicable character institution dispositions of credit (dispositions), discharged by the National Banking and Values Commission (CNBV), the institution counts with the Institutional Model of Internal Control (MICI), which was upgraded and approved by the Management Board in October 2019, that also includes the objectives and linings, and obeys the purpose of establishing the general framework so that the institution's personnel implements the SCI in the areas and its competitive processes.
The elements of the model are described in the next graphic:

Objectives
- Operations
- Information
- Compliance

Components
- Environment Control
- Risks Evaluation
- Control Activities
- Information and communication system
- Monitoring and Surveillance Activities

Identity structure
- General Director and Deputies
- Department Directors
- Operational area
- Functions

CORPORATE GOVERNMENT

The MICI has the purpose of contributing to the generation of an environment that promotes the reasonable fulfillment of the institutional objectives, the performance ordered by the operation, the proper management of risks, the normativity, the development of the processes trough the efficient use of the resources, trust in the institutional information and the prevention of the loss of resources.

In support to the MICI the definition of the Three lines of Defense has been defined. It prevents its implementation in three work groups, with activities and defined responsibilities, with the purpose of mitigating in a reasonable way the risks, trough the establishment and operation of internal controls.

The first line of defense refers to the share in a director's level, mainly from the areas of business, to manage the risks and implement its own controls. The second line refers to the functions of risk's supervision, control and accomplishment of policies, and to established standards in the institution, engaging specific, transversal and general risks. The third line is controlled by the Internal Auditing Board (DAI), which gives independent supervision to the first two, evaluates the SCI, identifies weaknesses and recommends improvements. Likewise, the DAI reports directly to the Auditing Committee.

It is also worth mentioning that it annually evaluates the functioning of the system of internal control and that, in result, a, Annual Report is evaluated that saves the internal institutional control, which that is presented by the Management Board and the Auditing Committee of the Institution, also to different taxation instances. In this sense, the areas of opportunity that are highlighted trough the evaluation are being attended by the different administrative units according their field.

Moreover, control routines are implemented by means of the settlement of a standardized evaluation methodology, which consist in applying periodic mechanisms of self-evaluation of the critical processes of the banking operation, trough surveys that allow to verify control points and to be in the possibility to identify possible incidences that motivate the accomplishment of the correct settings of these processes.

Additionally, there are the proper settings and strategies in safety managing of information, that regulate the use of equipment and Information and Communication Technologies (TIC's) services, to contribute to the fulfillment of the Mission, Vision and Objectives of the Institution.

Finally, the Security System of Management and Information (SGSI) is the foundation ti design, instrument and evaluate the security of information measures and focus its efforts to the improvement and consolidation of the system.

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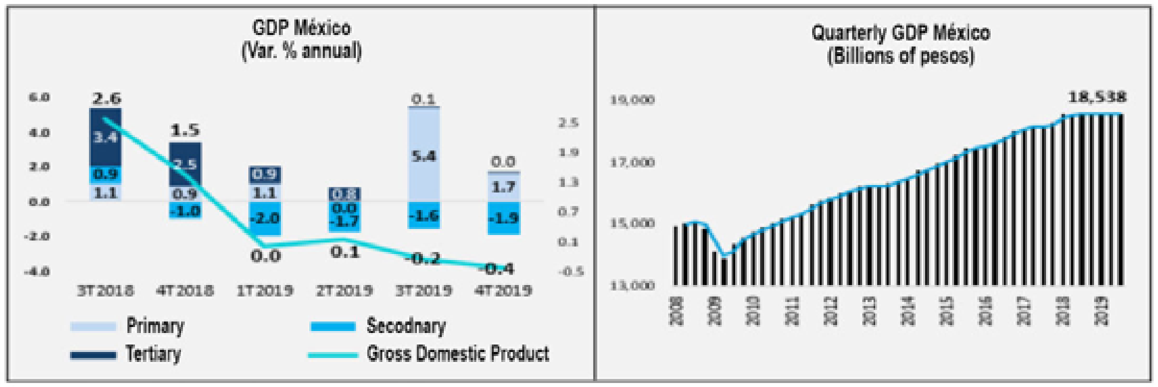
ECONOMIC ENVIRONMENT

THE MEXICAN ECONOMY OUTLOOK

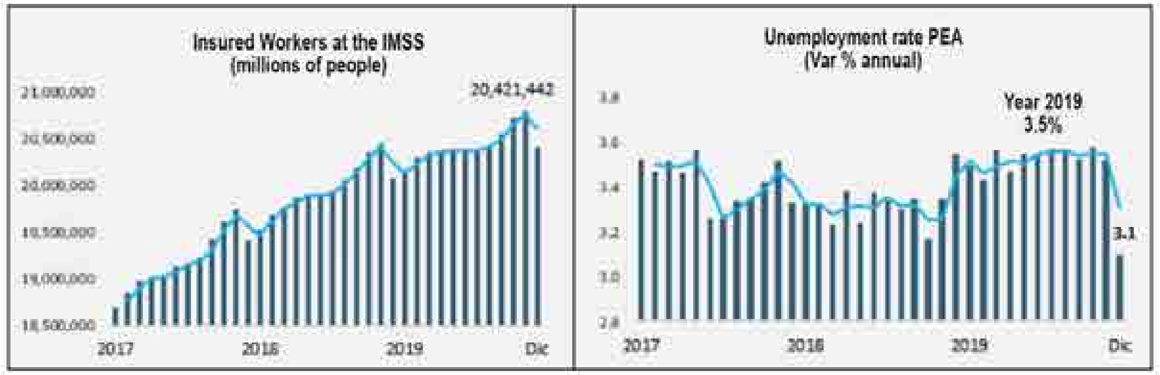
To Mexico, 2019 represented a year of internal adjustments that, combined with global economic global slowdown and the contraction of international trade, as a result had a decrease in economy. In this sense, during 2019 the gross domestic product (GDP) decreased 0.1% in contrast with 2018.

As it is usual to expect in the first years of a change in administration, in 2019 the public investment was contained due to adjustments in the government programs and the new investment priorities. This situation caused the investment number during 2019 had a setback of 5.0% to annual rate. On the other hand, the Foreign Direct Investment (IED), gathered 33 billion dollars more than 2018



Source: Elaborated by Bancomext with data from INEGI

During 2019 employment was affected by the low international economic rate and the inexistence nation economic growth, reflecting an unemployment rate of 3.5% annually compared with the 3.3% in 2018. According with data from the National Mexican Social Welfare Institute (IMSS), in 2019 48% less jobs were generated in contrast with 2018. Minimum wage presented an increase of 20% with $185.56.



Source: Elaborated by Bancomext with data from INEGI

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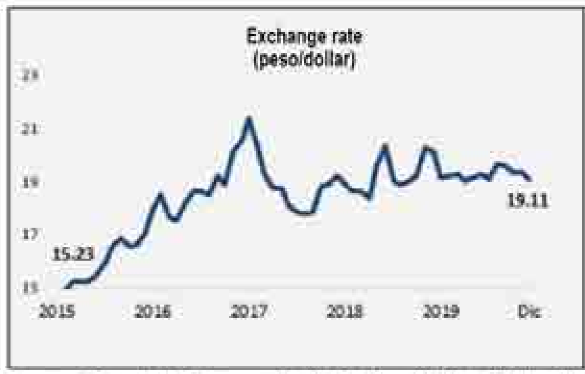
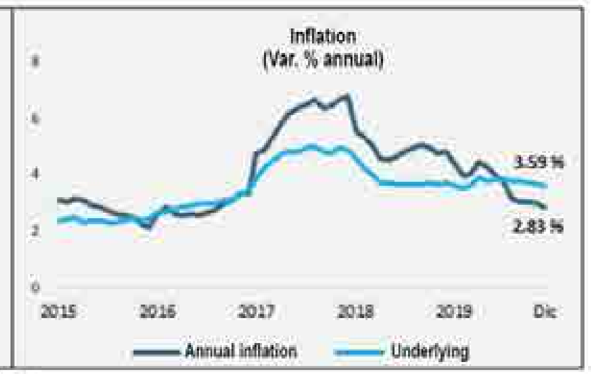
ECONOMIC ENVIRONMENT

The inflation rate during 2019 in Banxico's objective of 3% +/- percentual point, ending in 2.83%, smaller figure compared to the 4.83% registered in 2018.

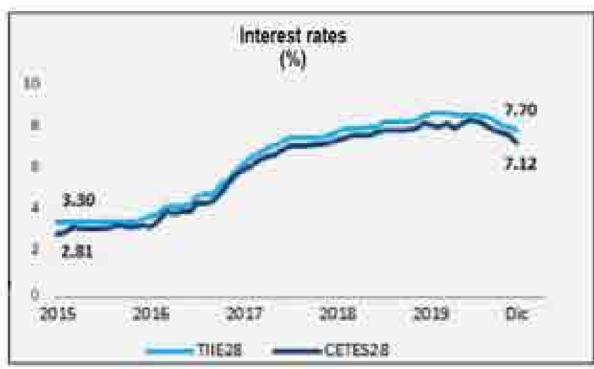
The Mexican currency finished 2019 with a price of 19.11 units per dollar, showing stability throughout 2019 for the peso encourage by the possible cease of trade due to tension between USA and China.





Source: Elaborated by Bancomext with data from INEGI and Bank of México

Thanks to the positive framework by the inflation, The Bank of Mexico ended 2019 with an objective rate of 7.25%. Even though the reference rate in Mexico is still low, it is among the highest international standard levels..



Source: Elaborated by Bancomext with data from Bank of México

*Elaborated by Bank of México

EXTERNAL SECTOR

TRADE BALANCE OF MEXICO			
Millions of Dollars	2017	2018	2019
Exports	409,433	450,685	461,116
Oil companies	23,725	30,601	25,945
Non Oil companies	385,707	420,083	435,131
Agricultural	16,000	16,508	18,106
Extractive	5,427	6,232	6,189
Manufactures	364,280	397,344	410,836
Consumer goods	104,582	115,531	121,546
Intermediate goods	174,164	193,408	190,799
Capital goods	130,687	141,746	148,770
Imports	420,395	464,302	455,295
Oil companies	42,010	53,762	47,207
Non Oil companies	378,384	410,541	408,088
Manufactures	364,740	395,331	392,693
Consumer goods	57,338	63,118	61,168
Intermediate goods	322,039	355,297	352,340
Capital goods	41,017	45,887	41,787
Balance of trade	-10,962	-13,618	5,820

TRADE BALANCE OF MEXICO			
Var % Annual	2017	2018	2019
Exports	9.5%	10.1%	2.3%
Oil companies	26.0%	29.0%	-15.2%
Non Oil companies	8.6%	8.9%	3.6%
Agricultural	7.8%	3.2%	9.7%
Extractive	24.2%	14.8%	-0.7%
Manufactures	8.4%	9.1%	3.4%
Consumer goods	14.2%	10.5%	5.2%
Intermediate goods	6.2%	11.0%	-1.3%
Capital goods	10.4%	8.5%	5.0%
Imports	8.6%	10.4%	-1.9%
Oil companies	33.1%	28.0%	-12.2%
Non Oil companies	6.4%	8.5%	-0.6%
Manufactures	0.7%	8.4%	-0.7%
Consumer goods	10.4%	10.1%	-3.1%
Intermediate goods	9.0%	10.3%	-0.8%
Capital goods	3.3%	11.9%	-8.9%
Balance of trade	-10,962	-13,618	5,820

Source: Elaborated by Bancomext with data from INEGI

BANCOMEXT IN FIGURES

Total financing
268,619
Million pesos

Number of supported companies
4,649
Companies of which 96.5% are PyMEs

Capital Strength
19 %
Net ICAP

Portfolio Balances by Strategic Sectors (figures in millions)

Sector	MXN	Participation in total%
Energetic	32,113	25%
Turism	32,066	24%
Industrial ships	22,949	17%
Transport and logistics	13,921	11%
Automotive	12,216	9%
Telecomunicacions	10,101	8%
Electric - Electronic	6,896	5%
Other companies	1,902	1%
Subtotal Sectorial	132,164	100%

Past-due portfolio balance
1 %
out of the total portfolio

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Successful share in the instrumentalization of one line of reception for 50 million dollars given by Nordic Investment Bank and a credit line with the Interamerican Bank of Development for 100 million dollars.

Raitings

Agency	Rating	Outlook
Fitch Ratings	BBB	Stable
Moody´s	A3	Negative
S&P	BBB	Negative

BUSINESS STRATEGY

Mission

Foster the foreign trade funding and the creation of currency within the nation, the amplification of the productive capacity of the exported companies and their internationalization, through quality attention to the clients with financial programs, guarantees and other financial services.

Vision

To be the main booster in the development of Foreign Trade, through quality and innovation, with committed people ruled by shared values.

Strategies and Objectives

The institutional program of Bancomext is sustained and aligned with the previsions in the National Development Plan 2019-2024 and in the National Development Financial Program 2019-2024 (PRONAFIDE) in the expectation of its publication in the DOF, once published, Bancomext

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INDICATORS

With the purpose to quantify the fulfillment of the Institutional program 2019-2024 of BANCOMEXT 15 indicators have been defined, which have been presented by the following closing results of December 2019:

Name	Base line (2018)	Dec. 2019	Goal 2024
1.- Growth in Inclusion Financial Sector (Companies)	4,492	4,649	5,476
2.- Growth in Financial Inclusion of the Sector by Stratum (Companies)	MICRO 695 SMALL 2,631 MEDIUM 643 BIG 523	MICRO 1,094 SMALL 2,542 MEDIUM 584 BIG 429	MICRO 845 SMALL 3,211 MEDIUM 784 BIG 636
3.- Growth in the Credit Balance Direct and Induced to the Private Sector (SCDel)	269,767	262,876	5,476
4.- Growth in the Credit Balance Direct and Induced to the Private Sector by Stratum (SCDel)	MICRO 32,535 SMALL 36,975 MEDIUM 23,901 BIG 176,356	MICRO 42,318 SMALL 42,779 MEDIUM 22,416 BIG 155,363	MICRO 46,418 SMALL 52,215 MEDIUM 33,366 BIG 249,912
5.- Inclusion of New Borrowers (Companies)	1,165	3,106	1,393
6.- Inclusion of New Borrowers by Stratum (Companies)	MICRO 475 SMALL 532 MEDIUM 117 BIG 41	MICRO 781 SMALL 1,910 MEDIUM 278 BIG 137	MICRO 564 SMALL 635 MEDIUM 140 BIG 54
7.- New Financing Accredited (SCDel)	23,389	31,511	31,159

INDICATORS

Nombre	Línea base (2018)	Dic. 2019	Meta 2024
8.- Financing of New Borrowers by Stratum (SCDeI)	MICRO 10,850 SMALL 5,334 MEDIUM 1,194 BIG 6,011	MICRO 12,697 SMALL 6,346 MEDIUM 3,817 BIG 8,651	MICRO 14,628 SMALL 6,951 MEDIUM 1,532 BIG 8,048
9.- Financial Inclusion by Gender (Clients: Woman-Man)	4,146 WOMEN 260 MEN 3,886	4,421 WOMEN 322 MEN 4,099	5,246 WOMEN 367 MEN 4,879
10.-Financing by Gender (SCDeI)	106,252 WOMEN 626 MEN 105,626	83,892 WOMEN 886 MEN 83,006	142,388 WOMEN 839 MEN 141,549
11.- Accreditation Graduation Level with Short Term Financing	14* 28**	1* 17**	15* 26**
12.- Market Driven Companies Credit and Capital	5	6	6
13.- Training Awarded (Training courses)	1,411	1,767	2,002
14.- Training Awarded by Stratum (Training courses) ***	1,411	1,767	2,002
15.- Training Awarded by Gender (Training courses)	WOMEN 706 MEN 705	WOMEN 913 MEN 854	WOMEN 1,002 MEN 1,000

* Ten years or more old, since 2009 (Guarantees)

** With financing since 2012 (Factoring, Discount and Letters of Credit)

*** Total courses by registered users within the training platform

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INTERNAL RISK MANAGEMENT

In the period between July and December 2019, the objective of the process of the Internal Risks Management focused in the control of different types of risks in which the institution is exposed (credit, market, cash flow, no-quantifiable); according to the normativity established in the General Applicable Dispositions Assets to the Credit Institutions, emitted by the National Banking Commission and Values (CNBV), published in the Federation Official Journal in December 2nd of 2005.

CAPITAL STRATEGIC LIMITS

The active limits in a strategic level (global limits) have a distributable capital of $21,914 million pesos.

It is worth mentioning that, in the global management model, a safety frame of 2.5% ICAP has been established to have fulfillment to the supplement of capital preservation that demands Basilea III since 2014.

- The limits in a strategic level, and the consumption levels in December 2019 are the following:

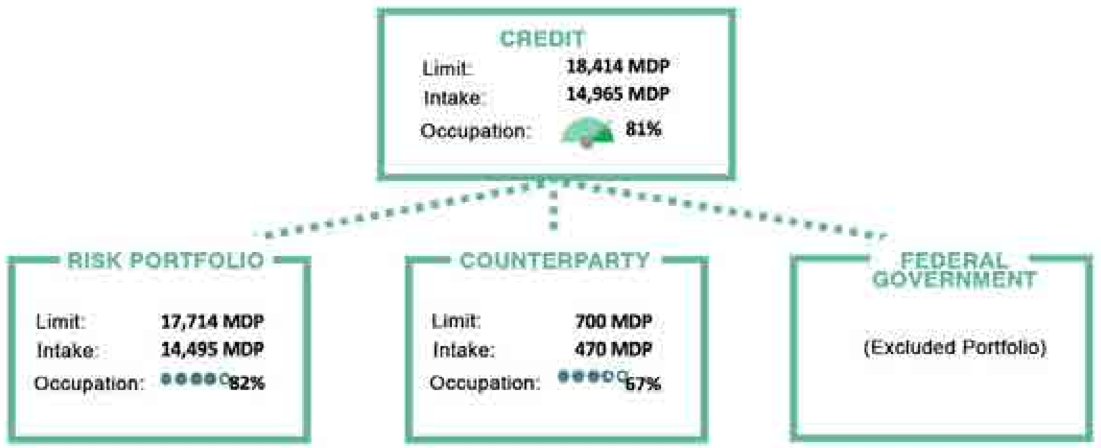
INTERNAL RISK MANAGEMENT

TACTICAL CAPITAL LIMITS

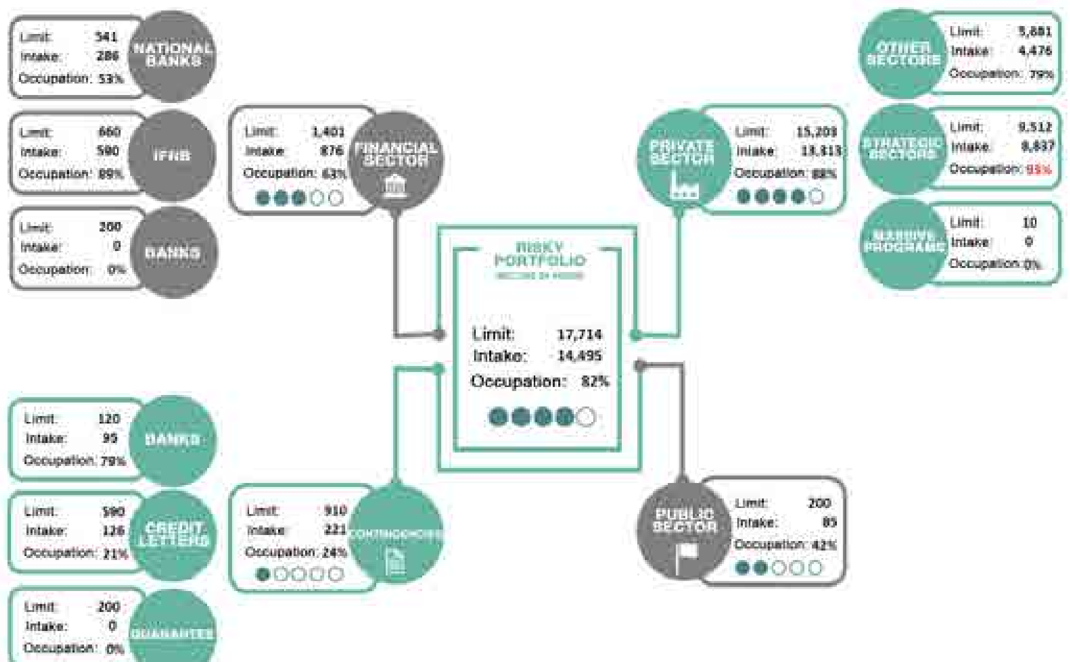
On basis of the strategic limits authorized by the Management Board, The Integral Risks Management Committee (CAIR) authorized the distribution of capital limits to a tactical level, determined on basis of the needs in the business areas.

A monitoring of the intakes to control the assumed risk by the institution. In all cases the consumption remained within the authorized limits and no misuse was registered.

- Regarding the credit risk, the limits in a strategic level and its consumptions in 2019:



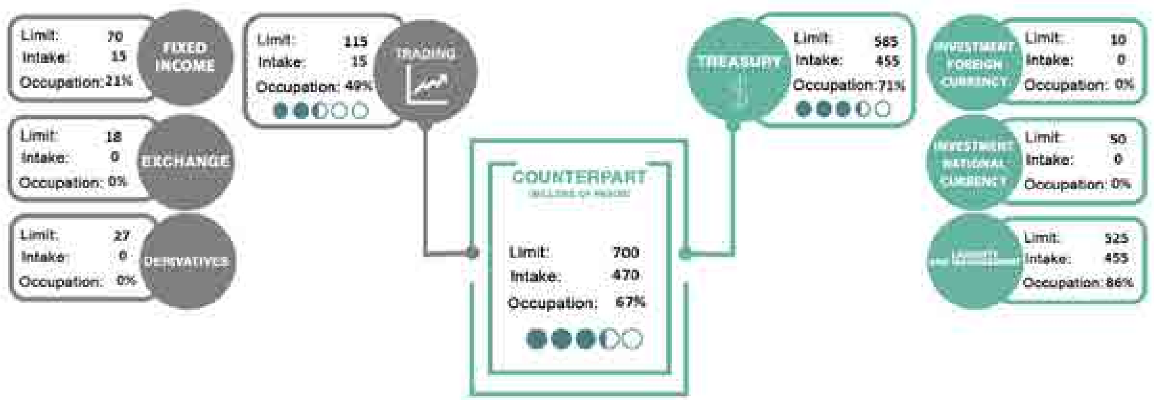
- For the portfolio with risk, the limits and consumption of the credit risk in December 2019:



On the other hand, according to the General Applicable Dispositions Assets to the Credit Institutions in the matter of diversification of risks in the realization of passive and active operations, the maximum limits for common risks were determined, briefing the Business Units and the CAIR.

According to these dispositions, the credit expositions are determined and the occupational level of the applicable limits for each reference period for the Private Sector, the 3 biggest debtors in the private sector, the entities and bodies of the public parastatal sector and the banking financial intermediaries, set the limits of a prudential character with the purpose of maintaining the observance within the regulatory boundaries

- The structure of the tactical limits in the portfolio counterpart and their levels of consumption to December 2019



- Its is worth mentioning that between July and December 2019 the authorized limits were not exceeded
- The Treasury Portfolio presented a consumption of $450 million pesos of capital con an occupation of 71% of the tacit limit.
- Regarding the market risk, here are presented the tactic limits and registered intakes from December 2019

- In the closing of December 2019, the Risk Market portfolio registered a capital consumption of $1,782 million pesos, to a use of 71% of the strategic limit level. The biggest tactical consumption is in the Treasury portfolio with $1,122 million pesos and a use of the 69% of the authorized limit.

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CREDIT RISK

In December 2019, the total portfolio raised to $268,619 with balance due of $2,331 million pesos, a late payment rate of 0.87% and a coverage of past-due portfolio of 1.77 times. The total portfolio presented a decrease of 2.6% ($7,088 million pesos) in contrast with 2018, derived mainly by a decrease of 15.2% ($6,841 million pesos) in the contingent portfolio. On the other hand, the past-due portfolio had a decrease of 54.3% ($2,766 million pesos) derived mainly from the transfer of M&G Group ($3,649 million pesos) to portfolio B6, so the late-payment changed from 1.85% to o.87%.

Likewise, a follow up of risk of the private sector portfolio, making projections every three months of the credit VaR, also for the expected and unexpected loss, the percentage of preventive reserves and the concentration indicators.

As far as the guarantee portfolio concerns, in December 2019 the balance was of $13,431 million pesos, integrated by the program of automatic approval and transactional program. In the last 3 years, the portfolio of guarantees is growing to a rate close to an annual 7% (mainly for the automatic guarantee).

- The loss in the portfolio of automatic guarantee is close to the size of the commissions net charged and the interests that have generated fonds. The losses have been fewer to the ones expected in the design.
- The FIDAPEX trust with its different funds is authorized to support financial programs of foreign trade under a scheme of the mutual fund.
- The Mexico Undertakes fund of 7 million pesos is conducted to cover the international factoring for PYMES, currently does not require capital consumption.
- To this trust have been summed the contributions from both the secretary of economy like Bancomext in 2017, 2018 y 2019 for the guarantee programs.
- In October 2019, the CIC determined to guarantee just the program of the buyer guarantee with the fund PEF of FIDAPEX.

During the semester, monthly reports have been generated about the credit portfolio, daily reports for the counterpart risk, which have been spread among the business area, briefing also, to the collegial bodies.

Likewise, an inform has been periodically elaborated for each credit portfolio in the economic sectors, where participates mainly for the institution, in which the main indicators of risk and profit are included

LEGAL RISK

- A follow-up of Bank Legal Risk has been made, and the constituted reserves in function of the processual phase of each verdict
- By December 2019, the amount of reserves constituted by the legal risk was of $878 million pesos, with a coverage of 69%.

- The reserves are sufficient to cover the number of legal contingencies by unfavorable legal or administrative resolutions to the institution in function of its processual phase and possibilities to lose the sue.

TECHNOLOGIC AND OPERATIONAL RISK

Operational. – On basis of the Integral Risk Operational Methodology:

- Likewise, 15 processes with high operational risk have been identified. The evaluation of the identified risks in the Operational Manual Processes (MOPs), are in low risk.
- Regarding the observed exposition, the analysis of the loss events and their average cost, on basis in historical data from January 2008 until today, have been registered:

CREDIT RISK

- The requirement of total capital by operational risk raised to $1,090 million pesos, according to the Basic Indicator Method, which represents the 82% of the tolerance level of the capital by operational ris

Technologic.. – The aspects evaluated by technological risk show that the behavior of the identified events within the fulfillment parameters, without any impacts to the band critical processes

- The technologic profile analysis:

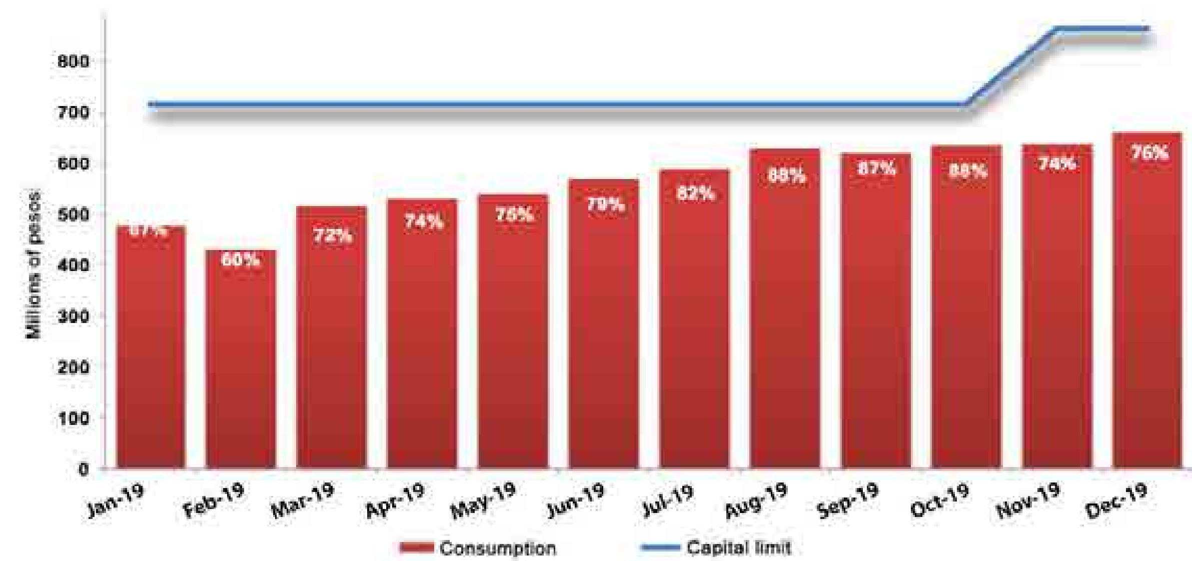
- The analysis of the Technologic Risk Map, the 17 applicative critical are evaluated with low risk
- In the analysis of the Indicators of Availability and Technological Security, variations in each indicator have been identifies; nonetheless, in either of the cases intrusions or impacts existed to BANCOMEXT thanks to the protection mechanisms that it has.
- The performance test of the Methodologies of high risk and Business Impact Analysis has been undertaken with satisfying results with emphasized its direct support to in the established tolerance levels

MARKET RISK

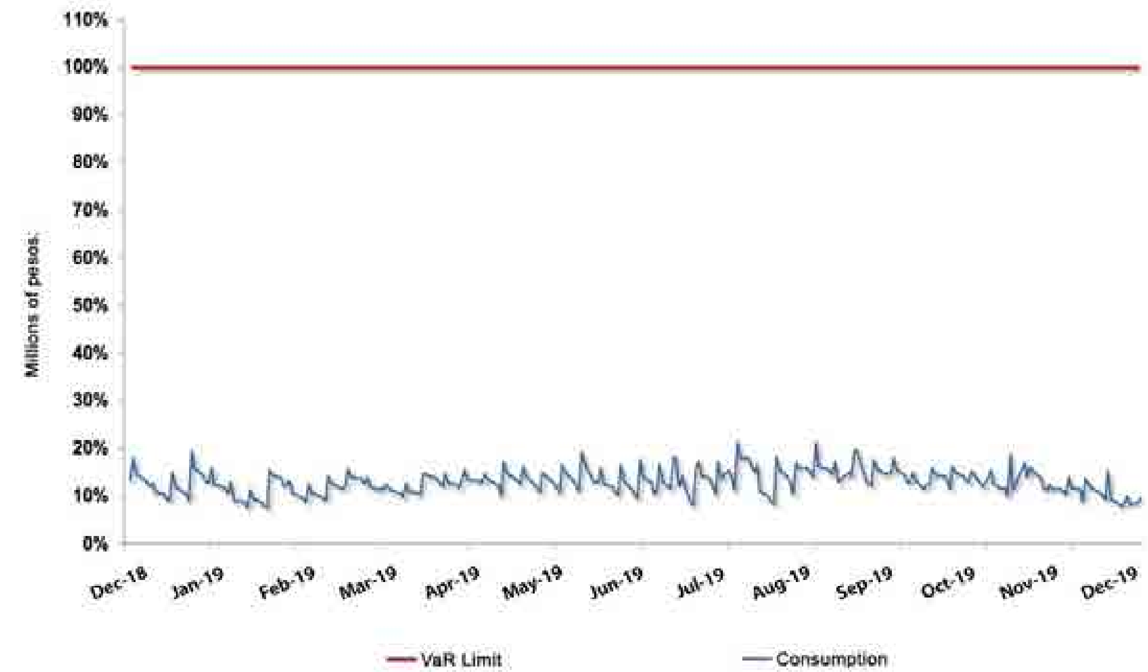
For this risk there have been stablished limits for the portfolio and for business, daily monitoring the risk to verify the fulfillment on the limits on the business area's behalf.
The results from the follow-up of the VaR are within the stablished limits for the portfolios of markets and currency, and for the portfolios of Foreign National Currency.

As of December 2019, capital consumption and VaR were within the limits established for the Markets and Exchange portfolios, as well as for the Investment portfolios in National and Foreign Currency.

LIMIT AND CAPITAL CONSUMPTION FOR MONEY MARKET



VAR LIMIT AND CONSUMPTION FOR MONEY MARKET



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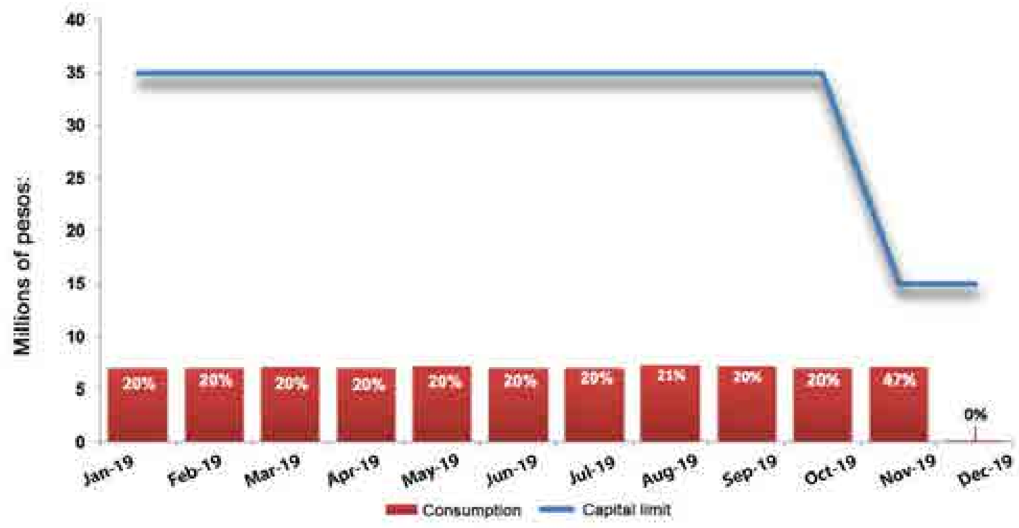
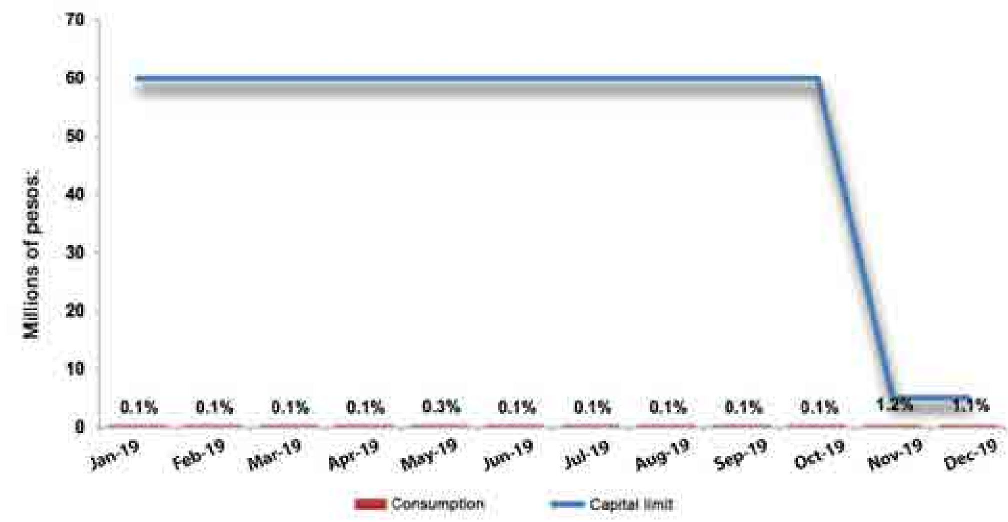
MARKET RISK

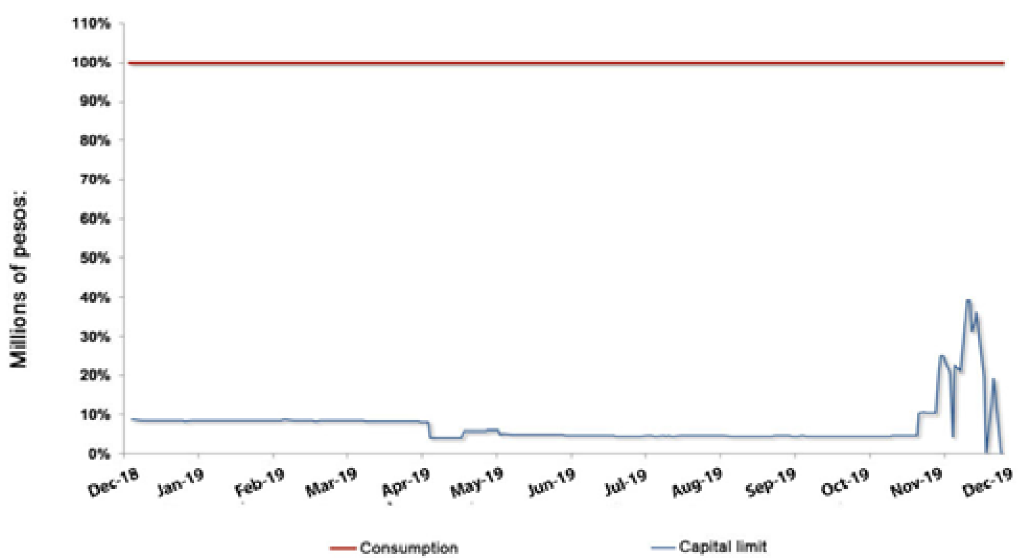
LIMIT AND CAPITAL CONSUMPTION FOR CHANGES



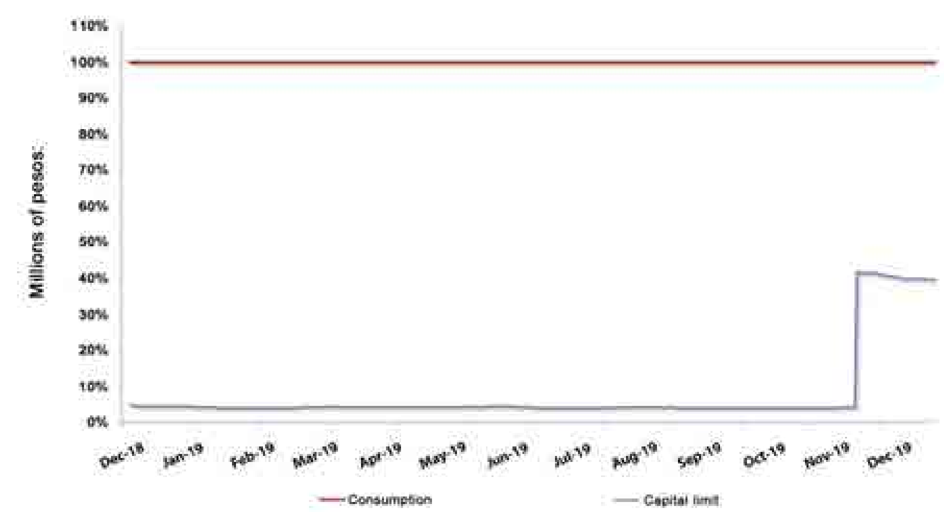
LIMIT AND CAPITAL CONSUMPTION FOR DERIVATIVES



VAR LIMIT AND CONSUMPTION FOR CHANGES



VAR LIMIT AND CONSUMPTION FOR DERIVATIVES



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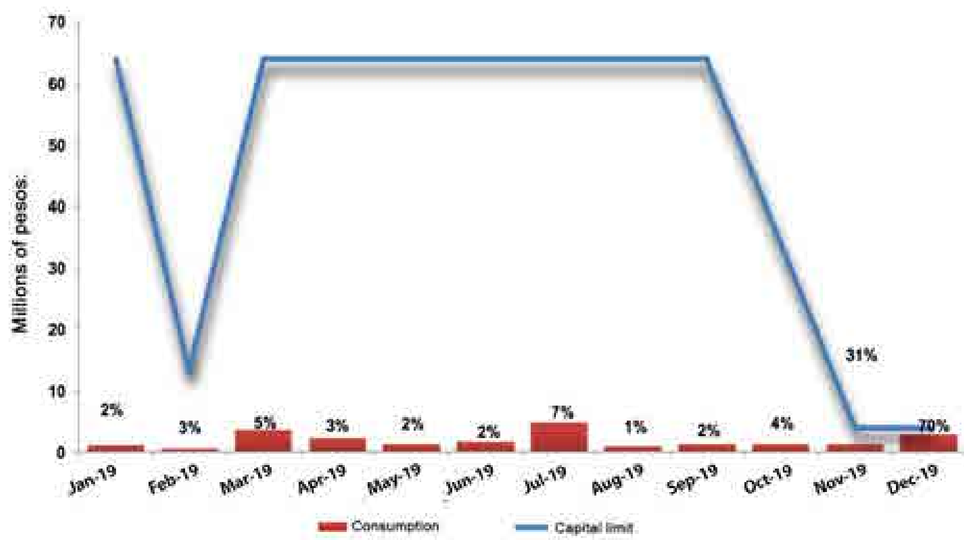
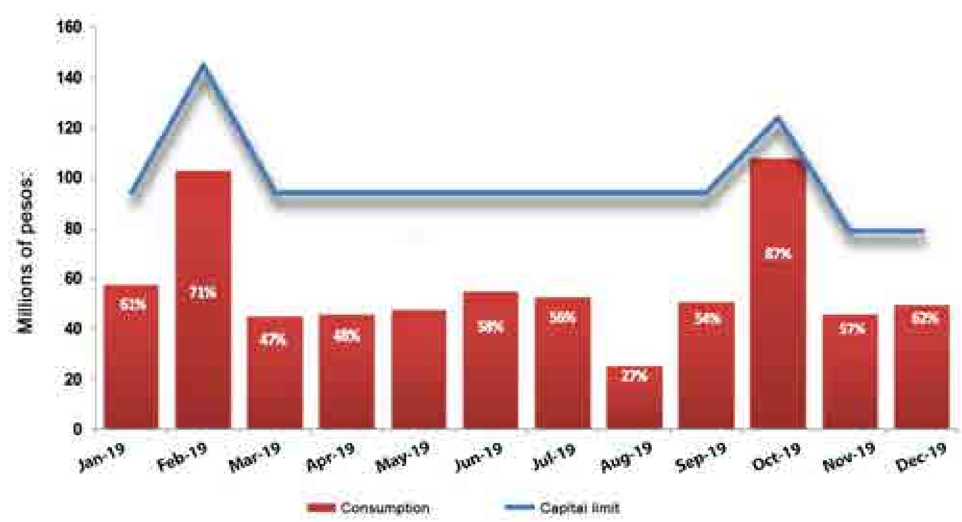
MARKET RISK

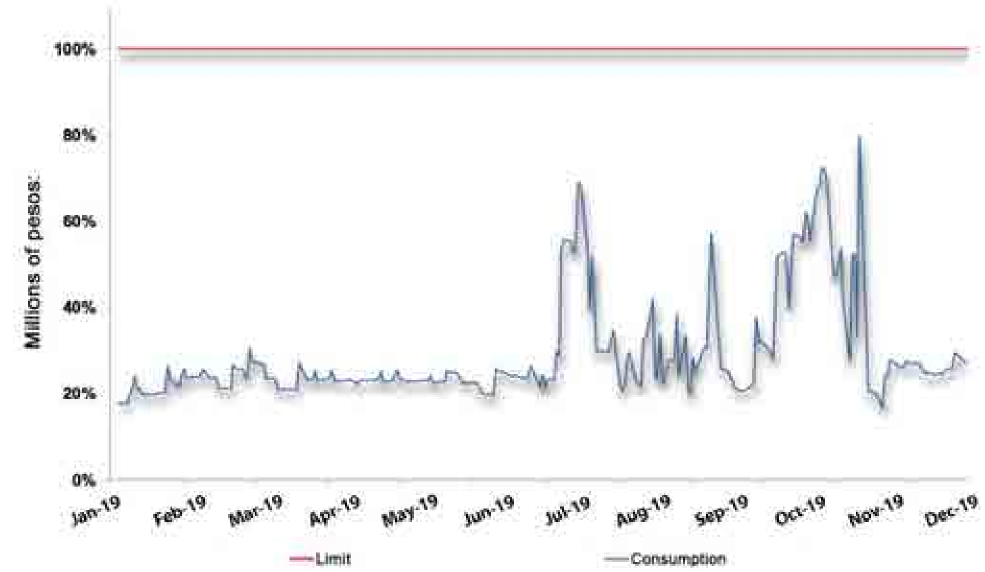
LIMIT AND CONSUMPTION OF CAPITAL FOR INVESTMENT IN FOREIGN CURRENCY



LIMIT AND CONSUMPTION OF CAPITAL FOR INVESTMENT IN NATIONAL CURRENCY



VAR LIMIT AND CONSUMPTION FOR INVESTMENT IN NATIONAL CURRENCY



To December 2019, the active and passive positions for reappreciation, for foreign currency are unbalanced in the time of 2 years due to the emission of the Mandatory Subordinate TIER 2 for 700 million dollars in August of 2016 and its coverage to 50%; for the national currency are practically in balance, thus do not represent a volatile exposition for the base rate.

The profile for the expiration of balance, foreign currency and national currency, present a structure of medium- and long-term assets funded with short term resources, with exposition to the increase of the capture rate in December 2019.

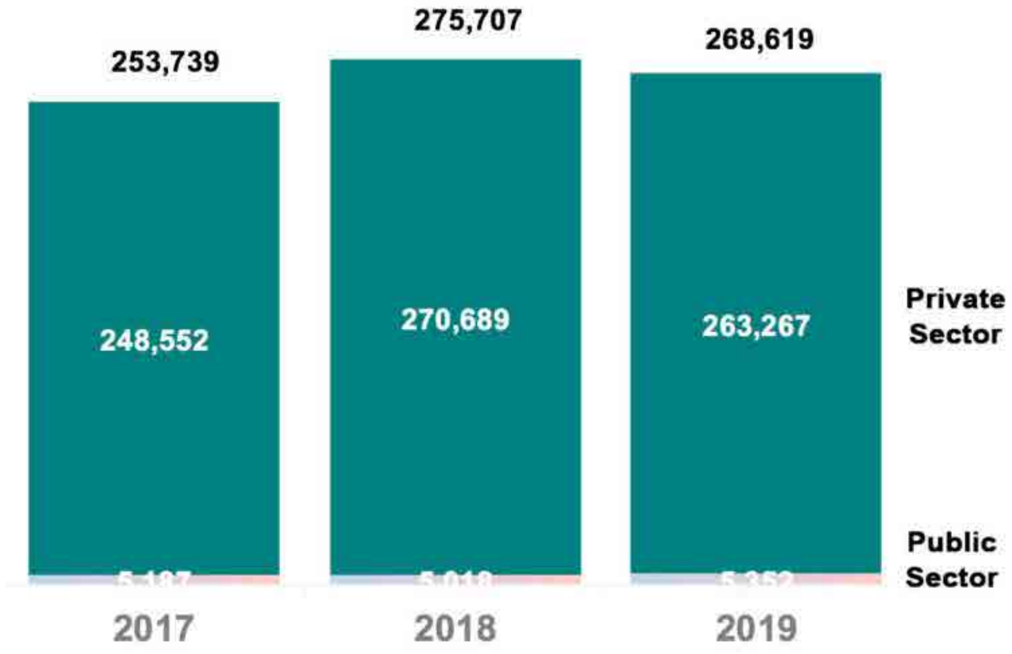
By December 2019, the profile of due-date balance of foreign currency shows that for the next month there is a need of 81 million pesos for funding and for the national currency 3,189 million dollars are required.

In both cases there are medium and long-term assets funded with short term resources, with the exposition to the rise of the capture overate.

TOTAL FINANCING

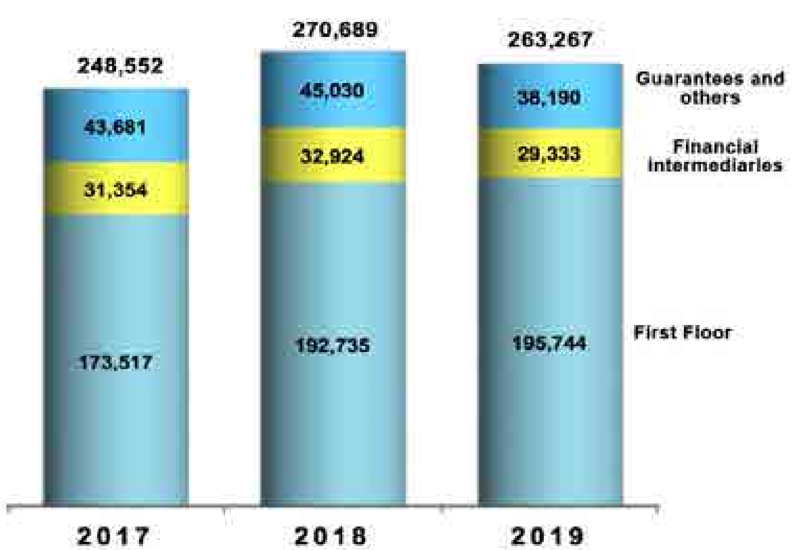
The total credit balance in first and second-tier, induced and guaranties, in the closing of December 2019, raised to 268,619 million pesos.

TOTAL PORTFOLIO BALANCES
(MILLIONS OF NOMINAL PESOS)



Source: BANCOMEXT

PRIVATE SECTOR PORTFOLIO BALANCES
(MILLIONS OF NOMINAL PESOS)



Source: BANCOMEXT

BANCOMEXT

FIRST-TIER FINANCING

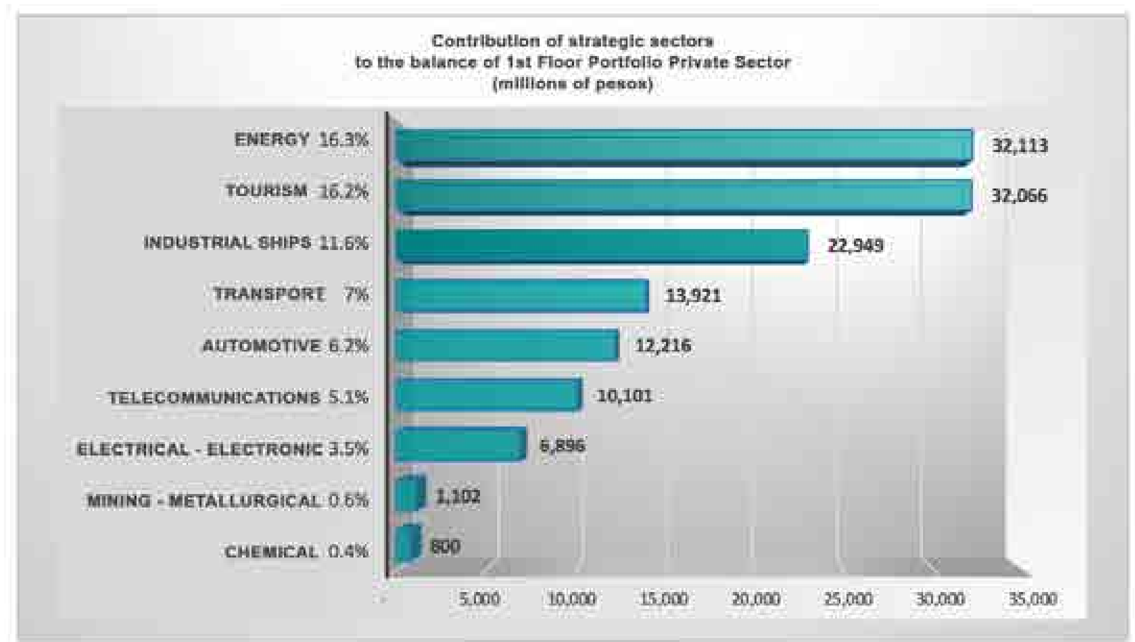
During 2019, the General Attached Management Board of Corporate Banking aligned with the objectives, strategies and lines of institutional actions, emphasized its support to the generator and export companies of currencies in all the phases of the exportation process, in their investments, amplification of productive capacity, its internationalization and to encourages foreign investment in the countries, which has permitted the strengthening of the presence of Bancomext like one of the main banks of development in Mexico.

The financing of Bancomext to these sectors has promoted the generation and preservation of jobs, and the financing and development of the country's chain values, which impact is reflected in the main indicator of the institution, such as: portfolio credit balance of the private first-tier sector, the number of benefited companies, the granting of resources, commissions and intakes by financial framework; an potential client portfolio (Pipe Line).

The unionized credits with the trade bank presented a growth of:

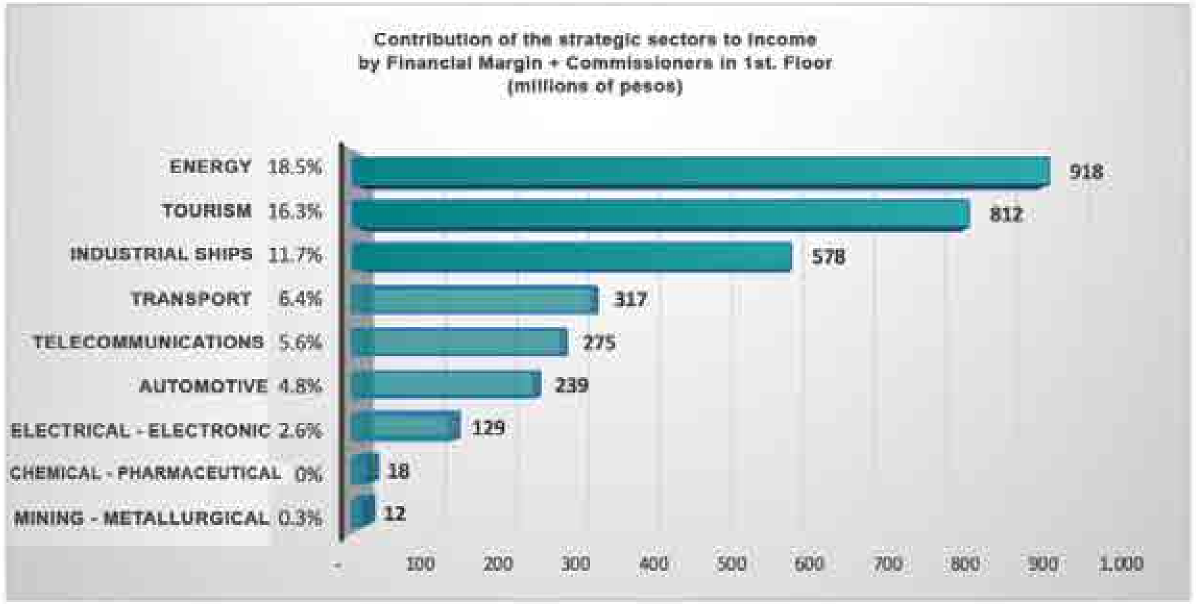
- 22% in the number of lines when crossing 118 in 2018 to 144 in 2019
- 24% in the amount of credit lines when crossing from 81,486 million pesos in 2018
- to 101,325 million pesos in 2019
- The balance percentage of unionized credits in contrast with the total portfolio
- balance changed from 29% in 2018 to 36% in 2019.

The characteristics of the main indicators are the following:
The first-tier portfolio balance in the private sector was of 197,540 million pesos in the closing of 2019. The sectors that stand out contribution in the portfolio balance of first-tier and private sector were: Energy with the 16.3%, tourism with the 16.2% and Industrial Plants with 11.6%.el 16.3%, Turismo con el 16.2% y Naves Industriales con el 11.6%.

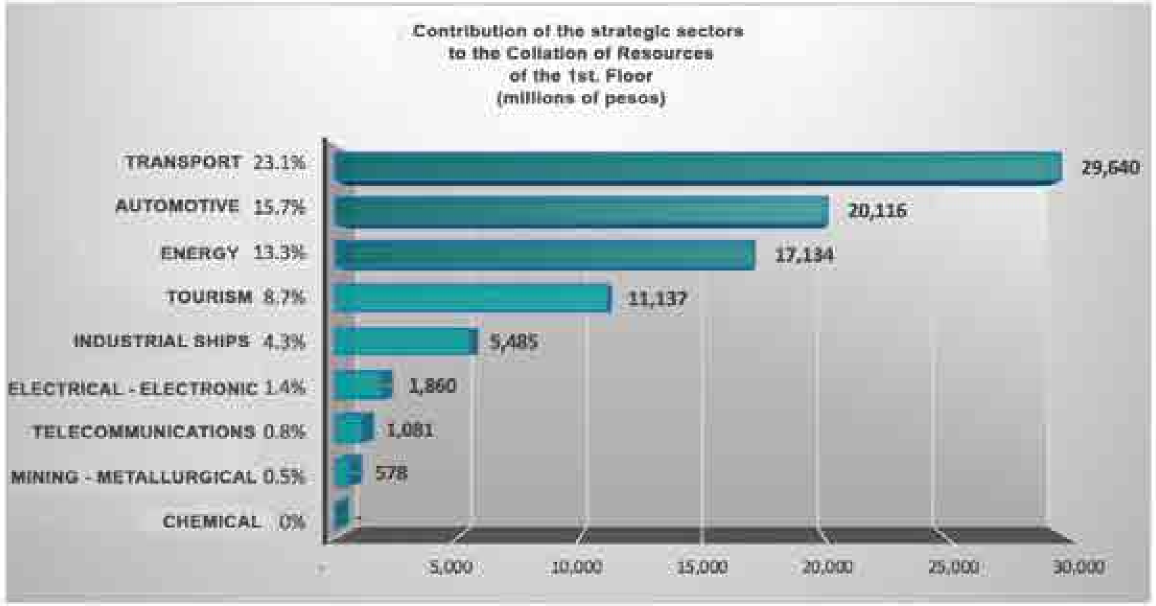


FIRST-TIER FINANCING

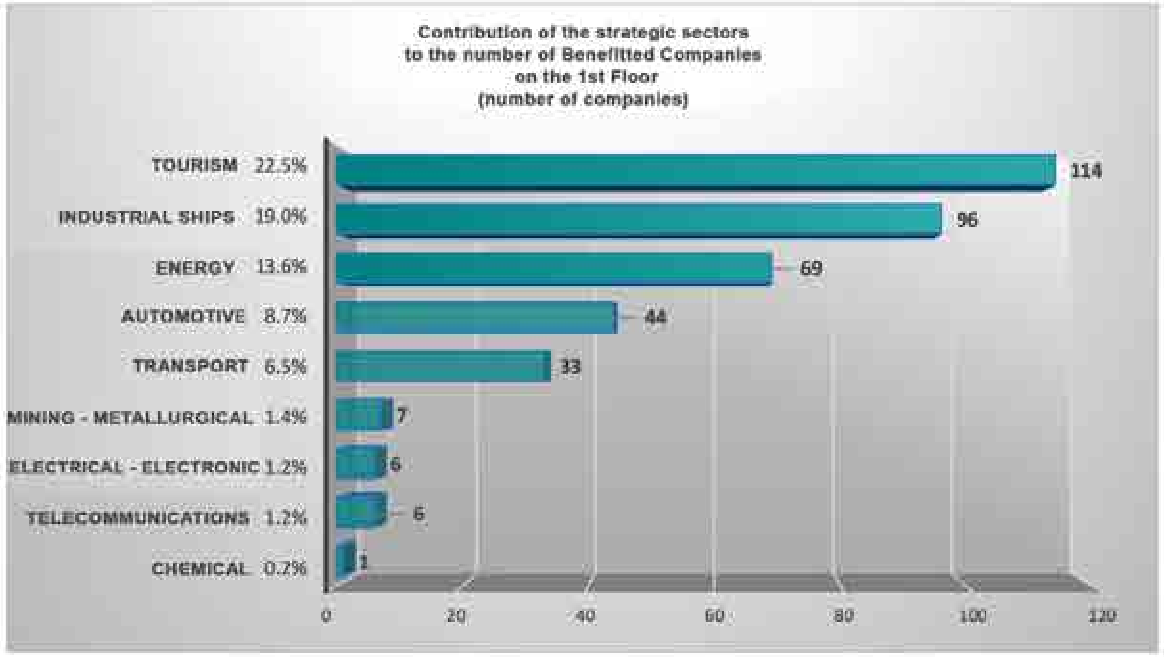
The income by financial frame and credit commissions of first-tier contributed to the sustainability of the institution, were for 4,974 million pesos, amount f money that reflected an increase of 11% in relation with December 2018, which was for 4,470 million pesos. The portfolios that contributed to the consolidation of the income were: Energy with



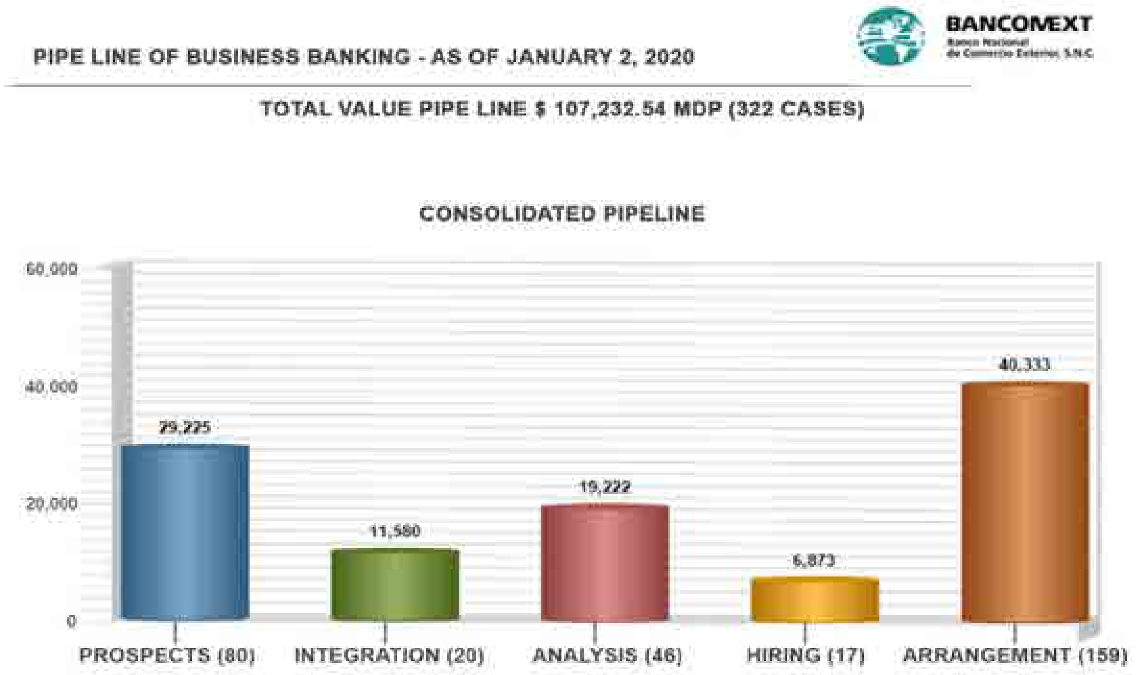
Regarding the placement of resources in the first-tier financial aid were conducted for a sum of 128,437 million pesos. The strategic sectors that stood out in this period for their contribution in the use of resources were: Transport with 23.1%, automotive with 15.7% and Energy with 13.3%.



The number of companies that were benefited during 2019 were 1,248: This number includes 506 companies with direct aid and 742 companies indirectly aided. For their contribution in the number of companies that were benefited directly the role of these sectors stand out: Tourism with 22.5%, Industrial plants with 19.0% and Energy with



In closing of December, the prospect portfolios (Pipe Line) raised to 107,232 million pesos.



BANCOMEXT

FINANCING TO PRIORITY SECTORS

1. Tourism

The tourist industry moves the world economy, contributing to our country's development in a direct, indirect, and induced way, affecting the value chains and contributing to PIB and employment.

Considering the contribution to the economy of this sector and its transversely impact, Bancomext improved its touristic sector model by focusing to develop investment projects, relating and identifying investment agents and touristic competitive points, also the places were the hotel facilities to host busines, health and beach tourism. As a result of this strategy, the direct credit portfolio in Bancomext to touristic investment is integrated by projects in 27 states in the country.

Bancomext, together with the Trade Bank, implemented the program "Improve your hotel", which was announced in April 2016, and has the purpose of modernizing the hotel infrastructure. This program gives support to the sector through the Trade Bank with credit as high as 60 million pesos with competitive interest rate, appropriate terms that allow the development of the investment projects, but most importantly with the support of BANCOMEXT.

Likewise, for the credits higher that 60 million pesos, they are supported directly in the first area by the Companies Bank. Ever since its implementation until the first semester of 2019, through the "Improve your hotel" program, 191 credits have been authorized in first and second-tier for 5,456 million pesos.

In the 2019 companies related to the Tourism sector received a loan for 14,700 million pesos, which represents an increase of 8.4% in contrast with the previous year. This financial aid is the first and second-tier. The amount of companies that received a credit were 2,246.

The credit loans given in the touristic sector in the firs-tier in 2019 allowed to finish 1,700 new rooms in different places across the country. This represents the creation of more than 2,500 new direct and 5,000 indirect jobs.
The credit applied in the first-tier contributed to enhance companies in 27 different states: 44% in the south, 37% in the pacific and 13% in the center.

The 2019 first-tier portfolio indicators were:

- Within the energetic sector, the touristic portfolio was the second most important with a total balance and the most important in the counterpart numbers in the total portfolio balance of the private sector in Bancomext. The terms of balance represented the 16.2% of the total portfolio from the private sector first-tier of the DGA of the Corporate Banking, equivalent to 32,066 million pesos, which represented an increase of 4.1% in contrast with 2018, which was of 30,736 million pesos.
- The sector portfolio generated the biggest number of benefited companies in the closing of 2019, equivalent to 114, which represents the 22.5% of the amount of benefited companies in the Corporate Banking DGA.
- The portfolio of the sector generated an important contribution to the income by financial framework and first-tier portfolio commissions in the Corporate Banking with 812 million pesos., equivalent to 16.3% of the total amount, reflecting the profitability and quality of a counterpart diversified portfolio, segments, regions, with the long term duration.
- The use of the resources during 2019 raised to 11,137 million pesos. In the closing of December 2019, the sector closed with a favorable prospect portfolio with a balance of 24,774 million pesos with 55 projects under study.

2. Export Industry (Industrial plants)

The real estate industry sector has an outstanding performance in the last few years, hence, Bancomext continued offering specialized products for the development of industrial infrastructure in the country, fostering the foreign investment, the employment growth and currency creation.
During 2019 Bancomext diversified the industrial plant portfolio with sustainable office projects. The industrial plants segment investments were given to public vehicles.
On the matter of industrial infrastructure, Bancomext continued with the real state trusts (FIBRAS) that has industrial properties in the country. The role of Bncomext with this type of projects gives confidence to international banks to invest in Mexico.
The portfolio indicators in the closing of 2019 were:

- • The third biggest balance portfolio contributed with 32,066 million pesos, which represented the 16.2% of the balance of the first-tier portfolio.
- The portfolio in this sector generated the biggest contribution in the financial framework with the most commissions with an amount of 578 million pesos, equivalent to 11.6% of the total first-tier income of Bancomext.
- The number of benefited companies were 96, contributing 19% to the number of companies benefited in a direct way, becoming the second biggest sector portfolio.
- The placement of resources for the granting of financial support was 5,485 million pesos.

In the closingof 2019, the sector had a prospect line of 10,304 million pesos with 35 case studies.

BANCOMEXT

FINANCING TO PRIORITY SECTORS

3. Automobile industry

Bancomext continued giving aid to one of the sectors with the biggest share in the trade balance in Mexico, the Automobile industry, granting financial aid to companies and having value chains in the sector, enhancing the presence of Bancomext as a political and economic tool to boost the country's development.

Among the main loans granted to the sector are the increase of credit given to a tire multinational company, trucks and racing cars, planes, agricultural machines and heavy machinery; in San Luis Potosí with 3,773 million pesos aid with the purpose of complementing the foreign investment of the company in Mexico, trough the establishment of a tire high value industry plant HVA (High-Value-Added), for the distribution of North and Latin America; boosting the value chain and generation of more than 4,000 direct and indirect jobs.

In this way, Bancomext gives service to a value automobile chain in every level, fostering the development in the national supplier and the growth on the plant.

The portfolio indicators in the closing of 2019 for the sectors were:

- The portfolio balance reached an amount of 12,216 million pesos of the first-tier total portfolio balance of the private sector.
- The placement of resources during the period was 20,116 million pesos, with a contribution of 15.7% to the Corporate Banking, becoming the second biggest placement inside the credit portfolio in the DGA of the Corporate Banking.
- The number of companies benefited was 44, a figure that represented 9.0% of the total companies benefited directly in the DGA of Business Banking.
- The sector generated 239 million pesos financial framework income plus commission.
- The potential operation portfolio in this sector were of 3,559 million pesos with 18 projects under study.

4. Transport, Logistic and Aerospace Industry

During 2019, Bancomext continued giving support to this sector, mainly in favor of national airlines for the modernization and growth of the fleet with structured and unionized operations, which allowed a better connection inside the national territory, benefiting the passenger.

Among the main loans in this sector are:
The investment for a new plant in Santa Catarina, Nuevo Leon, for a company dedicated to manufacturing plastic automotive parts, generating 90 new direct jobs and incorporating national suppliers in its value chain trough loans of 641 million pesos.

The funding and construction of a new aerospace plant in Hermosillo, Sonora, trough loans of 1,917 million pesos. This plant will have the purpose of the manufacturing of high standard precision for plane turbines with "LEAP" technology, GE technology with fuel consumption efficiency, as well as the renewal of current turbines, generating 300 direct jobs and 500 indirect ones.

The funding for the modernization and growth for the second biggest airline in Mexico, which would create a better connection withing the national and international territory. It is worth mentioning that the unionized and structured transaction in aid is 1,632 million pesos.

It is also worth mentioning the funding of an oil company for 2,367 million pesos for construction and acquisition of new watercraft, with a new contract by PEMEX in support of the hydrocarbon sector.

Additionally, Bancomext is part of the National Committee on Productivity, and plays a role with other government and private bodies, fulfilling directions from de government presidency to improve the Productivity and Competition in the Aerospace Sector.

The portfolio indicators of 2019 were:

- This sector generated the biggest first-tier resource contribution in Bancomext, with a balance of 29,640 million pesos, which represented the 23.1% of the total amount.
- •The sector presented a portfolio balance of 13,921 million dollars, 13.5% more that last year (12,263 million pesos).
- The sector's portfolio generated a financial framework (plus commissions) of 317 million pesos and benefited 33 companies.
- The portfolio of potential operations in the closing of December was 5,564.8 million pesos with 20 projects under study.

5. Conventional and Renewable Energy

Bancomext has boosted the energy sector through medium and long-term funding for the development, construction and starting of sub-sector projects with the energy generation of "Oil & Gas".

BANCOMEXT

FINANCING TO PRIORITY SECTORS

In this sense, Bancomext, in attention of the main strategies of the Federal Government, in 2019 continued supporting the clean energy projects (wind, photovoltaic) to foster the use of renewable energy sources that help the goals set by the country. Additionally, Bancomext supported the use of energies that have better energetic efficiency.

Bancomext shared the funding of an Italian multi-national solar panel system that operates in the renewable energy market, which generates ~1000 MW to the national electrical system.

Bancomext shared the funding of 6 projects from a small French company that participate in the field of generation and distribution of electricity, natural gas and renewable energies, that represents 721MW of renewable energy and required and thorough financial structure.

Bancomext had a role in the first reservoir-base funding in Mexico. A project of an Egyptian company that won the exploration and extraction Cardenas-Mora contest; also considered as the Pemex's partner. The project belongs to the first farm outs round, it is the first time Mexico has a role in this type of investment that are common globally in mature national economics.

The main results in the closing of 2019 were:
The portfolio balance in this sector was 32,113 million pesos, an amount that represented 16.3% of the total balance of the first-tier private sector portfolio, making it the most important portfolio of the bancomext sector programs. It also presented an increase of 12.4% compared to the same period of the previous year, which was 28,565 million pesos.

- This sector portfolio generated, by financial framework plus commissions, 918 million dollars. It is the most important portfolio in the main sectors with a contribution of 18.5% of the total of income generated by Corporate Banking. As well as a 21.2% growth in contrast with the previous year, which was 757 million pesos.
- •Placement terms, this sector reported 17,134 million pesos, with a contribution of 13.3%; placing it as the third most important in the strategic sectors.
- The companies benefited were 69 and their prospect line was 22,477 million pesos with 64 projects under study.

6. Telecommunications

During 2019, Bancomext strengthened the support to companies that gave information and communication technology services.
In the closing gof 2019 this sector had a balance of 10,101 million pesos; 12.7% more than last year (8,962 million pesos). In terms of placement, reported 1,801 million pesos; income for 275 million pesos and 6 benefited companies.

7. Electrical- Electronics

During 2019, Bancomext remained supporting competitiveness and growth in companies that have a role in the electronics and electrical sector in manufacturing processes and other services that are included in the exporting chain. The portfolio for this sector had a first-tier private balance of 6,896 million pesos, spending of resources of 1,860 million pesos, 6 benefited companies by financial framework plus commissions of 129 million pesos.

8. Other sectors

The role of the Regional Management Offices of the Corporate Banking is crucial in the attention of the new sectorial approach established by the top management. This implies that their promotion efforts are directed to foster exports, substitute imports and increase the national integration level; generate chain values, as well as the growth and geographic expansion.
The results in this new approach are:
Financial result balance of 66,177 million pesos, which represented the 33.5% of the total first-tier private portfolio balance.
The financial resources placement was 41,406 million dollars, with a contribution of 32.2% of the total first-tier amount.
The income by financial framework contribution plus commissions was 1,649 million pesos, which represented 34% of the total income amount.
The companies benefited from other industry sectors was 131, which represented 25.8% of the total first-tier benefited companies.
The potential operation portfolio in this sector in the closing of 30,978 million pesos with 108 projects under study..

1. Northeast Region Management Board and Other Sectors

During 2019, the Northeast Region Management Board remained with the commitment to attract new clients, authorize new credit lines, generate new agreements with current clients and promote the expansion of financial products.

The results of the year were:
The portfolio balance reached was 18,658 million pesos in the first-tier private sector.
The placement of financial resources plus commission was 394 million pesos.
The number of benefited companies during 2019 was 33.

BANCOMEXT

FINANCING TO PRIORITY SECTORS

2. Center Region Management Board and Other Sectors

During 2019, the Center Region management Board promoted institutional credit programs, supporting new and current clients, increasing the funding of other economy sectors such as trade and manufacturing industry, keeping the risk level grade in green numbers.

The results were:

- •The first-tier private portfolio balance was 32,014 million pesos.
- The financial resources placement was 16,208 million pesos.
- The financial framework contribution was 774 million pesos.
- The benefited companies were 53.

3. .Western Region Management Board and Other Sectors

During 2019, the Western Region Management Board remained enhancing the Mexican companies in other sectors such as agricultural, alimentary and entertainment, manufacturing industries.

The results in the year were:

- The balance portfolio of 10,784 million pesos in the private first-tier sector.
- The financial resources placement was 8,216 million pesos.
- The financial framework contribution was 296 million pesos.
- The benefited companies were 20.

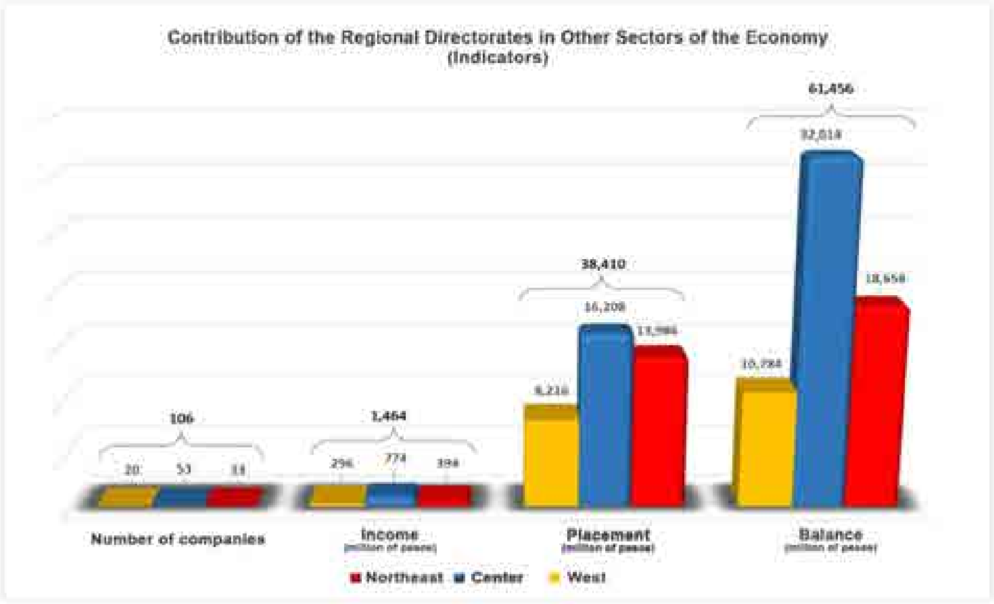
The operations that stood out are:

The unionized credit given by a Mexican company dedicated to the exhibition of movies for 700 million dollars, which Bancomext shares 75 million dollars. Currently, the company generates annual services for 900 million dollars and creates 26,000 direct jobs.

The participation of Bancomext in the unionized credit for a Mexican company dedicated to the manufacturing of paper and carton for 355 million dollars, out of which Bancomext gave 50 million dollars. The company increased its exportations by 200 million dollars annually and directly employs 11,000 people.

The Mexican multinational alimentary protein industry, thanks to the support from Bancomext trough the unionized credit for 470 million dollars (out of which the institution participated with 50 million dollars to fund its investments in Capex), increased its exportations to achieve more than 900 million dollars; creating more than 11,000 direct jobs.

With the support of Bancomext, one of the leader companies in paper and packing, funded its investments in Capex, as well as its new plant in Nuevo Leon, through a unionized credit for 470 million dollars, of which Bancomext participated with 50 million dollars, the company generates more than 420 million dollars annually and creates more than 7,500 jobs.



12. Letters of credit

During 2019, Bancomext remained giving service of letters of credit to clients with credit line and fostering the funds provision, from counseling to the required follow-up to ensure their emission.

The attention to the behavior of the new projects and their placement operation support of letters of credit, the product operating area is applying two initiatives: the first one is to look for new opportunities with current clients. The second one: trough the capturing of the product to the business promoting executives in Bancomext.

FINANCING TO PRIORITY SECTORS

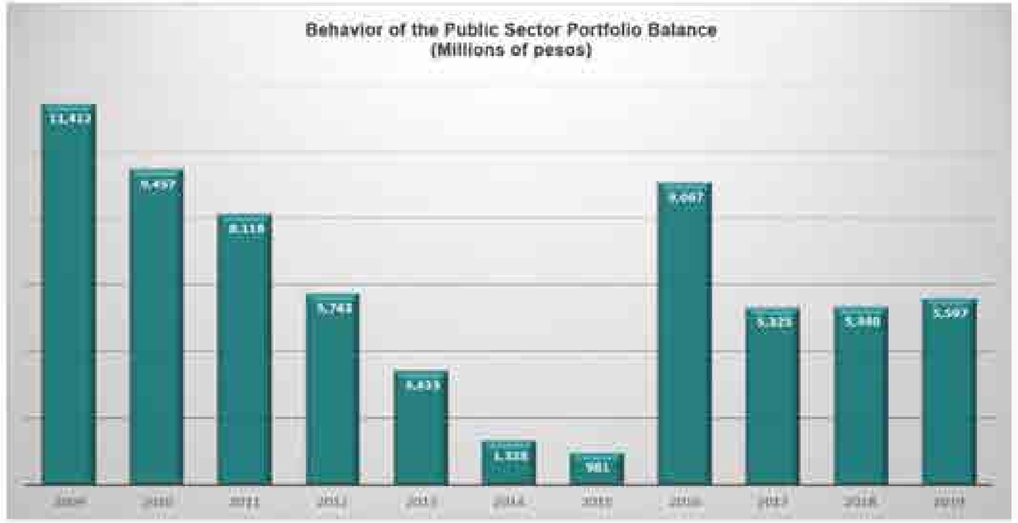
The results in 2019 were:

- •The reported balance was 1,092 million pesos for letters of credit with risk and 530 million pesos for letters of credit with fund provision, adding a total of 1,623 million pesos.
- In the placement area, operations for a total of 6,020 million pesos were emitted, integrated by 5,769 million pesos for letters of credit with risk and 251 million pesos for letters of credit with fund provision.

The income for charged commissions were a total of 46 million pesos, integrated by 37 million pesos for letters of credit with risk and 9 million pesos for letters of credit with fund provision.

13. Public Sector

In order to properly give service to the needs of the Mexican enterprise market, Bancomext undertook, since 2009, the reconversion of its approach while giving financial aid, paying especial attention to the private sector and decreasing the aids given to the public sector. However, in 2016 the most important energy company in Mexico asked for support to the Development Bank to complement it horizontal integration in new markets, like the use of gas, urea and fertilizers, discharging credit in the first semester of 2017.
Hence the portfolio balance of the public sector was 5,597 million pesos, keeping focus and funding the private sector. The behavior of the public sector is shown in the following graphic:



BANCOMEXT

FUNDING FINANCIAL INSTITUTIONS

Funding trough Financial Intermediaries
Bancomext has strengthen its strategy to boost foreign trade financing and the activities that generate currency trough the granting of intermediary banking and non-banking financial resources so these give credit to companies with operations in the international markets or generate currency, with particular attention to the sector prioritized by Bancomext.

The funding has an approach on small and medium banks in medium and long-term operations. In 2019 a non-banking intermediary was incorporated as newly accredited, so 53 banking and non-banking intermediaries were registered.

The program had a balance of $29,333 million pesos in 2019, supporting a total of 497 companies in foreign trade and currency generators.

During 2019, and as a response to the requirements and/or need of the Financial Intermediaries, new products and programs were identifies, which could be implemented in 2020.

On the other hand, in the Letters of credit, one of the strategies was to make alliances to make operations on behalf of medium and small National Banks. In this sense, the Letters of Credits balance with National Banks was $1,666 million pesos by the end of 2019.

Guarantees Program

Resulting from the promoting work in the Guarantees Program, 3,774 companies were financed in better conditions trough the Aid program to the PyMEX Export and Import companies and the Aid Program to the Touristic Sector.
The Guarantees Program registered, by December 2019, $20,990 million pesos, which represented an increase of 9% in contrast with

SECTORS

IMPROVE YOUR HOTEL- Integral Financing Program specialized in the modernization of the hotel infrastructure of the country, in order to give service to the financial needs in: construction projects, equipment, expansion, renovation, technical improvement, environment, energy saving, fuel and water of the hotel. Any integral improvement of the facilities and/or offered services.

PROCAR- Sector Program in support of the supplier PyMES that belong to the global exportation chain in the sector.

PRO ELECTRIC AND ELECTRONIC – Directed to support the PyMEX that belong to the global supply chain in the electric-electronic sector to expand and improve the national distribution in the industry.

FINANCIAMIENTO INSTITUCIONES FINANCIERAS

CAPEX – Program dedicated to support the PYMEX in the improving of their productive capacity through the granting of funding for equipment and machinery, facilities, vehicles.

FACTORING

INTERNATIONAL FACTORING

The International Factoring Program offers to the Mexican export companies' liquidity on its accounts receivable on export sells and, simultaneously, helps them mitigate the risk that implies selling to a foreign client.

In 2019, the Program registered a spending of resources of $12,695 million pesos, and a balance of $2,559 million pesos, benefiting 215 companies distributed as follows:

Platform	Business 2019
PrimeRevenue	110
FCI	95
Import	10
Total	215

In the closing of 2019, 32,732 invoices were funded, that belonged to 40 import countries worldwide.

1. Suppliers

This program allows Bancomext to finance the accounts receivable in the supplier companies of the gif export companies. With figures from 2019, the program registered a balance of $1,923 million pesos; the placement raised to $8,066 million pesos, offering aid to 435 supplier companies and 562 affiliated ones.
In 2019, a bank platform was created, and work was done on the transcription of the operation.

2. International Factoring Guarantee

This guarantee program consists in the financing of accounts receivable of Mexican companies with exportation sells through National Financial Intermediaries, offering them a guarantee of 100% to buyer abroad previously qualified by Bancomext, giving work capital. The program allows the suppliers to obtain funding in preferent rates in the modality of "no resources" and without notifying the client..

3. Foreign trade Guarantee

The program consists in granting Financial Banking and non-banking Intermediaries abroad, to cover the risk of unfulfillment of a payment on the funding granted by its Mexican real state import clients. During 2019, a funding of 8.5 million pesos was granted to an American company with a subsidiary in Coahuila. Said operation increased the guarantee balance to the double, remaining in 176 million pesos.

BANCOMEXT

FACTORING

- Letters of Credit with International Banks

The letters of credit are a foreign trade tool linked to the compromises of the companies, that allow the access to a bigger number of markets. Resulting of the strategy of Bancomext as a supplier of this service and the permanent promotion made with the international bank, in 2019 a balance of $9,011 million pesos.

4. Strategic Alliances

During 2019, Bancomext, trough the Financial Institutions DGA, participated in different national and international promotion events, some of them like the 14th Export Congress, the Foreign trade Congress (COMCE), the inauguration of the International Business Center of the Secretary of Economy, Fintech week, The national Week of Financial Education, the Iberoamerican Guarantee Forum od REGAR.

On the other hand, in this year an agreement of collaboration was signed, together with NAFIN, the Association of Banks of Mexico (ABM), with the purpose of supporting medium and small companies, through a new program model of guarantees.

5. Portal ***www.bancomext.com***

The Bancomext portal online stays updated to keep functioning as a main electronic tool in promoting services and products. During 2019, 1,038,241 views were seen on the website:

No.	Top 5	Visits
1	Credit letters	30,989
2	International Export Factoring	24,134
3	Stand-By Letters of Credit	15,761
4	Export Letters of Credit	15,153
5	Import Letters of Credit	13,528
6	Others	25,724

Additionally, the portal offers electronic bank services, so it has become a portal for informational and transactional use.

6. PyMEX BANCOMEXT

In the Bancomext website there is a page dedicated to Pymex (Small and Medium Export Companies) bancomext.com/pymex/, where 99,840 views were made:

No.	Top 5	Visits
1	Financing	4,350
2	Financial Education Courses	1,692
3	Calculating	1,560
4	Sector Information	948
5	PYMEX Advisory	945
6	Others	2,319

Additionally, there is a Bancomext App dedicated to the attention of the PyMEX, where 24,765 views have been made.

No.	Top 5	Visitas
1	Financing	4,350
2	Financial Education Courses	1,692
3	Calculating	1,560
4	Sector Information	948
5	PYMEX Advisory	945
6	Others	2,319

BANCOMEXT

FACTORING

On the other hand, the Telephone Contact Center with the number 800-EXPORTA, gave service to 1,456 calls, highlighting those about products and financial services: like PyMEX Credit, Letters of Credit and International Factoring.

No.	Top 5	Visitas
1	Transfer	433
2	Advisory	271
3	The call was not achieved	208
4	Financing	105
5	Errors	101
6	Others (Letters of credit, PyME credit, Factoring)	301

7. EPYMEX BANCOMEXT Strategy and the Foreign Trade Institute of Financial Education (IFFCE)

The PYMEX BANCOMEXT strategy consist in the approach to the small and medium companies that participate in foreign trade. In the frame of IFFCE's strategy are four main elements:

- Information: Gives to the companies a place to look up for information related with foreign trade:
  - Economic Analysis
  - Sector Information
  - Selected articles of financial information for foreign trade
  - International and national links
  - Two E-books: Factoring and Financial Guide for the Exporter
  - In 2019 monthly journals were implemented, with tips for the PyMEX in business and foreign trade matter. 10 journals were sent.
- Personalized Counseling: Individual service to entrepreneurs trough a stand in institutional events, phone calls, and the participation in conferences, etc.
- Diagnosis and Analysis Tools: Specific content focused in financial and credit topics.
- Attraction: Specialized in foreign trade and financial matter trough on-site and elearning platforms, with 15 financial education spots and 30 online courses regarding financial and management matters.

The distribution means of the IFFCE offer are:

- The website *bancomext.com*
- The website *bancomext.com/pymex*
- The electronic platform for online attraction *aulavirtualbancomext.com*
- The events in which Bancomext participates.
- APP Bancomext PyMEX

The reported results for the institute are:

- 1,621 new members were registered in www.aulavortualbancomext.com from January to December 2019.
- Training has been granted to approximately 192 legal and physical entities trough the participation in different events, phone calls and the linking with other bodies like NAFIN.

In summary: In 2019, The General Management Board of the Financial Institutions made its financial products a total balance of $65,337 million pesos. Likewise, aid was provided to 4,486 small and medium companies that participate in foreign trade, tourism and currency providers; aiming to fulfill with Bancomext's goals.

The Management remained to promote the financial intermediaries, both national and international; increase and incorporations of new lines are predicted, as well as prospect analysis and new operations to face the new established goals.

Benefited companies

Products	2018	2019
Guarantee	3,524	3,774
Funding	598	497
Faactoring	234	215
TOTAL PYMEX	4,356	4,486

TREASURY AND MARKETS

The needs of financial resources for busines and operation were promptly given; transfer process was set for financial products in competitive levels. The captured balance in national currency was 129,850 million pesos and in foreign currency equivalent to 105,840 million pesos, resulting in a total of 235,690 million pesos. The number of correspondent banks assigned to no-compromised credit line to Bancomext was 28.

The resources from the Institution and third parties are managed by Pension Funds, Special Funds, Retirement Loans, Pension Fonds Defined Contribution, and were invested in market conditions, on the basis of risk limits and applicable operations, giving service to the established investment policies in the respective Committee.

It gave its clients the investment service with profit in the market currency and gave service to the needs of financial resources of the Bancomext Treasury, according to the following:

Within the functions as Exportation Credit Agency (ECA) of the Mexican government, Bancomext negotiated and renewed credit lines and promoted the use of these resources in the foreign long-term bank of development, bilateral and multilateral to fund credit programs.

BANCOMEXT

The money marker desk oversaw the institutional strategy of purchase, sale and repurchase of debt intrument in local currency (MXN), meeting the needs of treasury and promotion markets, closing the deals through brokers, brokerage firms and banks, taking part in primary auctions for goverment securities. FX trading desk covered the currency risks of Bancomext. Closing deals of foreing currencies purchase and sales, and also cross currency swaps.

The derivate-desk gave service to the needs of the Treasury, managing the fluency and risk of balance, trough the coverage operation trough Swap Interest Rates and Currency. Additionally, helped with the Promoting of Derivates area granting prices and contributions to clients with Rate, Currency and Swaps options, making the coverture of the accredited operations of Bancomext.

EMISSIONS AND INTERNATIONAL RELATIONS

Bancomext undertook the negotiation and hiring of the long-term credit lines, bilateral and multilateral, according to the strategy in the established funding in contrast with the relation with the Exportation Credit Agencies (ECA) and other International Financial Bodies (OFI's), as well as the Debt Emissions in the National and International Markets.

It also negotiates Cooperation Agreements and other similar tools with international financial institutions, that represent some added value to the institution.

It also negotiates Cooperation Agreements and other similar tools with international financial institutions, that represent some added value to the institution.
With hired lines with OFI's, investment projects have been supported, the renewable energies, sustainability and environmental. The Bancomext premise has been to give to the business sector convenient financial conditions so they can place themselves in the international market. The balance in the closing of 2019 were: Multilateral bodies USD329.5 million and bilateral USD 852.6 million.
To that effect, during 2019, Bancomext subscribed two new credit lines:

Institución	País	Características
Inter-American Development Bank	Multinational	Finance Telecommunication projects.
Nordic Investment Bank	Multinational (Nordic and Baltic countries)	Finance projects in the energy sector with Nordic participation

TREASURY AND MARKETS

Regarding the local debt emissions of the certifies stocks, in the closing of 2019, Bancomext has a current number of MXN 25,000 million through 9 emissions.
Bacomext has current bonds emitted in the international markets for a sum of USD 1,700 million:

- An emission of Senior Debt for USD 1,000 million, which meant the return of the international markets of Bancomext, after more than 10 years.
- A subordinated Tier 2 bond for USD 700 million with an expiration date in August 2026, with an anticipated payment option ("Call") to be used in August 2021.

The emission of this bond increased el capital index of Bancomext, allowing a natural coverture index of capitalization against the volatility and the currency change, given that the capital of the bank is in pesos and the credit portfolio is mostly in American dollars.

On the other hand, agreements were made through "Collaboration Agreements" with banking institutions, as well as foreign public bodies, with the purpose of repositioning Bancomext in the international markets, with the premise to foster foreign investment flow in Mexico, finance and/or guarantee interest projects between parties, as well as incrementing the international markets for Mexican exportation products.

Institution		Country	
Memorandum of understanding **Hungarian Export-Import Bank**	eximbank	Hungary	
Cooperation agreement **China Development Bank**	国家开发银行	China	
Cooperation agreement **Banco de la Nación Argentina**		Argentina	
Memorandum of understanding **Bpifrance**	bpifrance	France	

On the other hand, In 2019, Bancomext and the Ministry of Foreign Affairs (SRE) signed a Collaboration Agreement, derived from which:

- The Interinstitutional Planning and Monitoring Committee was formed, with the participation of SRE, the Office of the President, the Ministry of the Economy and Bancomext.
- Participation in the Meeting of Ambassadors and Consuls with the presentation on the main supports that Bancomext and Nafin, in their role as development banks, offer in support of the new strategy of the SRE, as the entity in charge of promoting exports of Mexican products and services, as well as the attraction of Foreign Direct Investment to Mexico.
- Support to SRE in promoting trade and attracting investment, through the appointment of Bancomext officials at Mexican Embassies and Consulates abroad.

SOCIAL RESPONSIBILITY

Since 2017, Bancomext applies new credit requests of the first-tier operations the management System on Social and Environmental Risks (SARAS), which strengthen the evaluation and management of risks in their credit process, considering the environmental and social aspects revision (AyS) according to national legislation, and the analysis of the investment projects following the Performance Norms and Equator Principles on Environmental Sustainability and International Financial Corporation (CFI).

SARAS establishes an integral management framework that includes policies, procedures, methods, tools, diffusion actions and attraction of external and internal groups of interest, to identify, categorize, evaluate, supervise and manage the explosion that the Bank can have in relation to the other negative potential environment and social repercussions of the projects and/or companies that requested credit and affect risks and credit reputation of the institution.

SARAS Mission
To boost and include environmental and social management risk in the operations to be financed for the promotion of foreign trade and the protection of the environment; as well as to promote the sustainable development through the funding of the focused products and boost the green economy with an environmental and social sustainable approach.

SARAS Vision
To help and boost the development of foreign sustainable trade, verifying the fulfillment of the environmental and social requirements, under a national regulatory framework and good international practices for the clients, ruled by shared institutional values.

GUIDING PRINCIPLES

BANCOMEXT

SOCIAL RESPONSIBILITY

With SARAS, Bancomext establishes a categorization in function of global environmental and social risk, aligned to the Performance Norms and Equator Principles of the CFI, summing up:

- A High risk. Considerable irreversible environmental and social adverse effects
- B Medium Risk. Adverse effects, less negative than "A" since they can be mitigated
- C Low risk. The environmental and social impacts are minimal or null.

With the application of SARAS, the Bank aligns and contributes with principles of different international initiatives for the mitigation of global warming and the progress in the sustainable development objectives in the financial sectors, for example:

- Mitigation and adaptation commitments before Climate Change in 2030, Paris Agreement.
- Sustainable Development Objectives, United Nations.
- Responsible Bank Principles, United Nations Environmental Program Financial Initiative (UNEP-FI)
- Task Force on Climate-related Financial Disclosures (TCFD)

The former considering that one of the main elements and premises of the initiatives, is the incorporation, revision and filing of environment and social aspects that allow to measure and report potential financial risks.

PERKS AND CHARACTERISTICS OF SARS IN THE BANK

- **Specialized unit**
  Environmental and Social Management Unit (UGAS) was created in the Credit General Management for SARAS operation. It is a multidisciplinary area with initial and environmental and social supervision functions, prior and during the validity of the granted credits in the first-tier as a product of SARAS.

- **Inclusive and vision reach**
  SARAS is an integral system applied in first-tier operations as part of the credit process. Likewise, the second-tier operation with IFIs, through a virtual platform, coordinated by the General Management Board of Promotion, consumables for training are given for the adoption of good practices and international initiatives in the sustainability of the financial sector.

- **Normative process, in line with Credit process**
  It is a normative methodology that started as Support Handbook for the Credit Process since September 2017, so it includes Intern Supervision; in order to be an auditable and clear process.

- **Portfolio management, Environmental and Social Risk Level (AyS)**
  SARAS allows to manage the portfolio in line with the risk category AyS of credit, as well as, permitting a thorough monitoring and follow-up of potential risk changes, to suggest action plans with mitigation measures.

- **Leadership and Development National Bank promotion (BND)**
  Bancomext is a reference for other development banks in Mexico, regarding the adoption to good international practices in the environmental and social risks management, given that it has a SARAS with the trade bank acknowledgment and international development of the multilateral bodies. Bancomext shares its experience in different fonds and meeting with other Banks. This allows the institution to access to more funds in the environment and social markets.

- **Development "Green and Sustainable Products"**
  There is a program of Sustainable Construction with promotes real-state sector (national infrastructure construction) to incorporate voluntary certifications in México in design phases, construction and operation, also the certification in Leadership in Energy and Environmental Design (LEED) worldwide approved by the US Green Building Council. Additionally, it is expected that new programs can develop in response of the environmental and social needs and opportunities that can be seen from some sectors and industries, in line with the national priorities.

- **Alignment with the Bank in Mexico and firm sustainability commitment**
  Bancomext was the first BND to subscribe and sign the Sustainability Protocol of the ABM in December 2017, which fostered other Development Banks to increase efforts. In December 2019, the ABM officially reported 25 endorsers institutions (18 from the trade bank and 7 from the development bank).

- **Technical Counseling and support for companies in the matter of environmental and social legislation**
  Besides promoting the fulfillment in environmental and social accredited or potential clients, the UGAS gives counseling to the related Mexican normativity to those companies that do not have specialized areas. The purpose is to fulfill with the procedure duties and environmental and social permits to ensure a regular operation and gradually foster environmental and social responsibility in companies.

- **Collaboration and linking with government departments**
  There are collaboration and communication channels between authorities and government departments qualified in the normative and normative and the environmental and social management aspects (SEMANART, PROFEPA, SECTUR, SENER, CONAGUA, INAH, etc).

BANCOMEXT

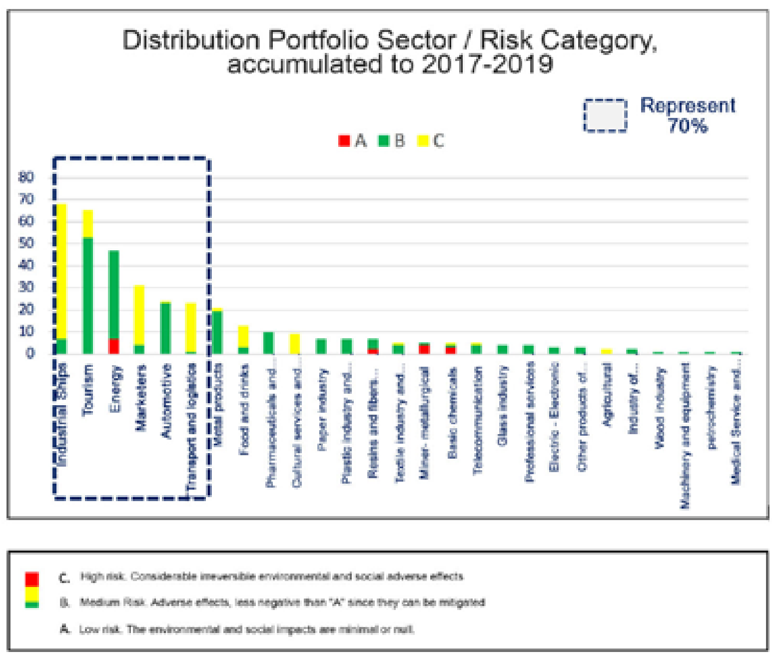
SOCIAL RESPONSIBILITY

that have allowed to share experiences to enhance and technical abilities of the UGAS and Bancomext.

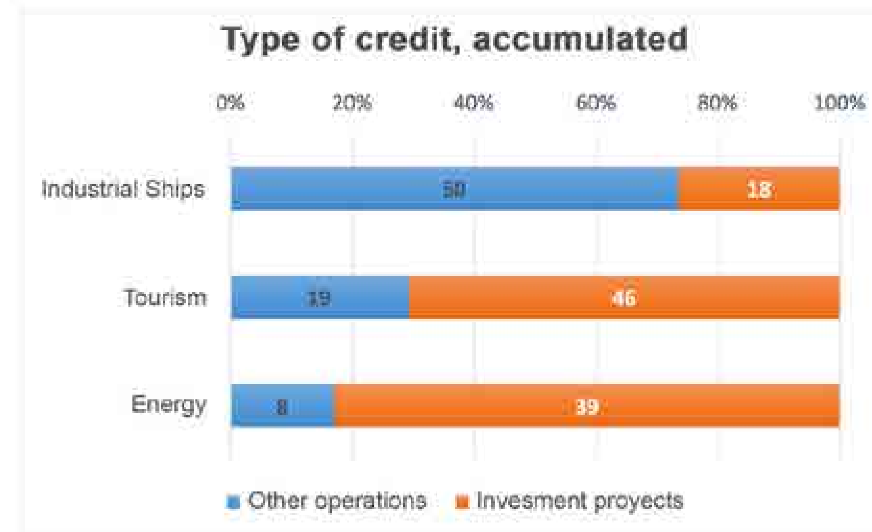
- **Internal and external Institutional Campaign Coordination**
  Together with the institutional Program of Social Bank Responsibility, a Work Plan has been made to define the guiding principles and dissemination messages in affairs such as: water-consumption saving, energetic efficiency, atmospheric emissions reduction, adequate disposition and solid residues recycling. Bancomext contributes to social welfare and sustainable economic development..

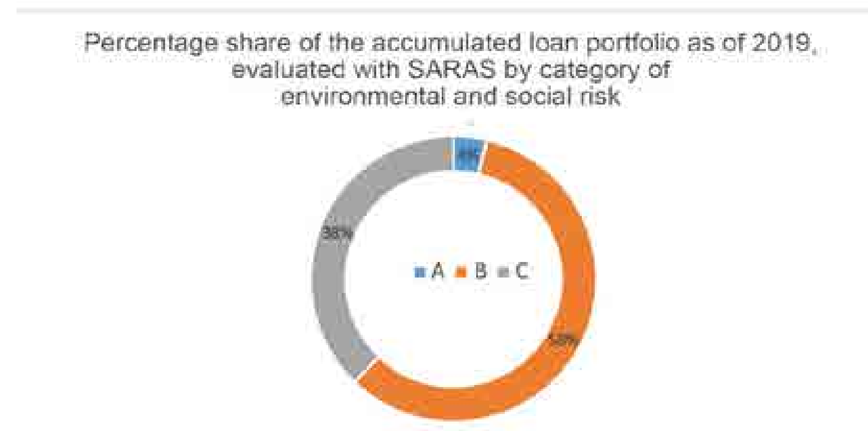
SARAS RESULTS

1. **Environmental and Social Evaluations (AyS) with first-tier operations**
   Ever since the beginning of SARAS in the closing of 2019, a total of 386 first-tier evaluations were financed, in which contractual requirements in environmental and social matters were determined, granting follow-up to fulfill the credit currency in the formal cases. Considering the number of operations, the 70% focus in six sectors: industrial plants, tourism, energy, trade companies, automotive and logistic and transport..



The three sector that have the most operations evaluated by SARS are: industrial plants, tourism and energy, adding a total 180 operations, out of which 103 are investment projects and 77 are another type of operations that include: work capital, corporate credits, refinancing, passive payments, etc.





BANCOMEXT

SOCIAL RESPONSIBILITY (VOLUNTEERING)

In the session of March 7th 2019, Banamext's Management Board authorized the continuation of the Positive Leadership and Social Responsibility Program to strengthen Bancomext abilities, which aims the realization of communitarian and altruist actions, and work for bonds that aim to improve Bancomext's leaders abilities, the organizational climate, social responsibilities and to help build conscience on the importance of sustainability. During these moths of 2019, the following activities have been made to generate a positive impact in the community, through personal volunteer work of Bancomext.

- An environmental awareness program, trough the launching of electronic postal, raise awareness among members about the protection of the environment.

- PET recycling program "Recycling and Helping", permanent activity. The program continued with the aim of donating the collected material to the Mexican Association for Aid to Children with Cancer (AMANC), to generate resources and finance its foundation. During the year 450kg of this material was recycled.

- "Young People Building the Future" program, permanent activity. In order to promote employability in young people who neither study nor work and support them to develop skills and competencies for work, the institution joined the Federal Government program. Initially, the goal was to open 20 vacancies for training; which was reached in the second half of June. During the year, 47 young people were trained in the various areas of the institution, of which 9 were hired, 7 through outsourcing and 2 directly.

- "Adding love", January. With the economic resources obtained during the photography and painting auction of the participant members in the Banking Games; in August 12th a social gathering was made in one senior care home; as well as the purchase of blankets for 70 elder people. In this gathering 33 Bancomext community members participated.

- College Talks, March. With the aim to help young college students to get to know Bancomext's work and how the institution has an impact on the country's development trough different activities, a series of conferences were given in which the history of Bancomext was explained: the way it contributes to the country's development and how its main products and programs work. 9 collaborators, who shared their knowledge to a group of 61 young people participated.

- "I want my voice to make a difference", April. The second entrepreneurship workshop was made; also, the creation of collective business of women in vulnerable positions. In this occasion a group of different people from Mexico City and the metropolitan area were invited to participate. 45 women and 20 volunteers participated in this workshop.

- Cause flag ceremony, April. In order to raise awareness in the Bancomext community about populations in less favorable situations, the group Youth orchestra, Orchestrating the Fight was invited to star in the flag ceremony of the escort that represented Bancomext in the Banking Games.

- Orchestrating the fight for the Youth Orchestra, May. With the aim to support the Youth Orchestra Foundation to make a summer course, which aims to help the vulnerable youth in communities to get close to the world of music, a fund raising was opened. 13 donors form the Bancomext community participated and managed to gather 5,700 pesos.

- Mothers with Cause breakfast, May. With the aim to bring together the Bancomext community to activities related to the Social Responsibility Program, a woman (who participated in the workshop "I want my voice to make a difference" in 2018) to tell her experience in the workshop and to tell how she benefited her collective and how her work has improved. Coyuche Colective was invited, which is integrated by 3 women from different areas in Mexico City that offer handmadeknitted products. Has a retribution, their products were purchased and given to the women who attended the event.

- CANAEC annual fun-raising, July. The Cancer Patients Aid Center, A.C. (CENAEC), institution that aids socioeconomic vulnerable people to the early detection of cancer and the continuation of their treatment, requested the support from the Bancomext community to fund its projects through the selling of lottery tickets. This year 45 tickets were sold, with the participation of 20 volunteers.

- Visit to the PETSTAR recycling company with 'Swallows', July. With the purpose to raise awareness and bring together the member's children to the protection of the environment; this year the yearly activities were directed to show them how waste is recycled, especially PET products. PETSTAR recycling center was visited, and association which Bancomext supports trough a permanent recollection campaign Recycling and Helping. 26 young "swallows" attended the event.

- Waste workshop with "swallows", July. With the purpose to foster the correct use of waste, a workshop was given to 25 "swallows" to show them the origin, components and correct recycling of the most common materials used by people. Furthermore, a busines proposal was generated in which waste use would be made in a sustainable fashion.

- "Sowing hope". Annual tree-planting, August. 250 people from Bancomext community planted 1,5000 Moctezuma trees, revitalizing 2 hectares from Huitzilac, Morelos. The trees that were planted will provide oxygen for 6,000 people and absorb 18,000 kilograms of CO2.

SOCIAL RESPONSIBILITY (VOLUNTEERING)

- ”Helping is in the blood”. Annual campaign to donate blood, November. Every year, there is a campaign to donate blood to the Pediatric National Institute. This year were 36 effective donors. Considering that for each donation 7 children lives can be saved; 252 patients were benefited.

- “Painting smiles”. Social activity with the Aid Foundation for the Mentally Disabled, December 2019. 63 volunteers painted and dignified the space of 57 children, young people and adults from the Aid Foundation for the Mentally Disabled, nursing home for mentally disabled people. Activities to recover green areas were made, also the painting of the exterior facilities and the use of rainwater harvesting, together with the gathering of 25 children that had a residency in FADEM.

BANCOMEXT

HUMAN CAPITAL

In order to be the main development trade booster, trough innovation and quality, it is required to have committed people guided by values, ethics and shared principles.

TALENT ATTRACTION

The human resources management board adopted, in 2018, the methodology conformed of replacements to the staff selection process to occupy the available positions. With this, it aims to promote personal development and to generate a culture of commitment. Equally important, recruiting processes have been made to incorporate talent into the organization that offers fresh and innovative viewpoints.

In 2019, the following incomes were reported:

Deputy General Directorate	Total revenues	Employee Type		By Gender	
		Official	Operative	Men	Women
General Management	-	-	-	-	-
Risk Management Division	5	3	2	5	-
Internal Comptroller’s Office	5	4	1	5	-
Chief Information Security Officer (CISO)	4	2	2	4	-
Internal Audit Directorate	2	2	-	-	2
DGA Administration and Finance	40	33	7	29	11
DGA Internal Audit	2	1	1	2	-
DGA Business Banking	15	12	3	5	10
DGA Credit	11	3	8	4	7
DGA of Financial Institutions	11	10	1	5	6
DGA Emissions and International Relations	3	2	1	1	2
Financial DGA	10	10	-	5	5
Legal and Fiduciary DGA	8	7	1	4	4
DGA Strategic Planning	6	5	1	4	2
DGA Institutional Promotion	2	2	-	2	-
DGA Technology and Processes	13	11	2	9	4
Internal control organ	5	4	1	4	1
Total	**142**	**111**	**31**	**88**	**54**

HUMAN CAPITAL

Recruiting

- The Quality and Human Resources Board executed the 2019 Recruiting Plan with the purpose to promote and strengthen the knowledge of institutional interest topics, derived from the implementation of different government programs that require the involvement and participation of public servants from Bancomext; likewise, a recruit needs analysis was made by areas of the institution. During 2019, different recruit requests were covered, adjusted to the austerity measures from the Mexican President with the next results:

No. of Events	No. of Participants	Total Hours
58	4,929	25,668

- Likewise, we have a financial master's degree with a closed Interior Bank group that is managed by Anahuac University, with the participation of public servants (14 officials and 14 operators). The selection of this group was the result of an open process with the Bank community and was undertook by the Mixed National Commission of Recruiting, training and professional education, formed by the Management board and the union. This degree finished in December 2019.

- Additionally, 14 members were supported with education credits to study graduate and undergraduate programs.

- The Climate Survey and Organizational Culture was applied (ECCO) 2019 of the Federal Public Administration, in October of the same year, obtaining a participation index of 41.29% and a satisfaction index of 83%.

BANCOMEXT

BANCOMEXT PRODUCTS

IN OPERATION

- CAPEX equipment
- ECA warranty
- PRIME Certification
- Creative Industries: Cinema
- Business Guarantee
- Improve your business hotel
- Business
- Currency Conversion
- Chemical Industry
- Foreign TradeBuildings & Sustainable ertification
- Direct Provider Factoring

IN PROCESS

- Stock Guarantee (update)
- Financing for innovation

IN ANALYSIS

Deepen supports in value chain:

- Metallic Products
- Modes and Dies
- Auto parts
- Electrical - Electronic

FOREIGN TRADE JOURNAL

Foreign Trade Bancomext is a trimestral publication of the Foreign Trade National Bank, S.N.C. which first number was released in 1951. The journal's origin is the result of the institution's commitment with the diffusion of information related to the main economic and trade happenings in a national and international level. Each number is dedicated to a particular topic related to the foreign sector and is conformed of one analysis section, and specialized articles written by outstanding figures in the relevant topics, one section dedicated to Mexico and another one to the international environment. Foreign Trade is an educational channel dedicated to all of the companies and people interested in knowing theory and the international trade opportunities and the potential of our country to take advantage of the foreign trade sector.

RATING AGENCIES

The Moody's rating agencies, Standard & Poor's and Fitch, consider that to assign their rates to the institution, strength of the institution and the backing of the Federal Government grants for the fulfillment of their objective as a booster to the Foreign Trade in Mexico. In this sense, the backing from the federal government, represented by the explicit guarantee of the government in the organic law of the bank, implies that the institution receives the same ratings and perspectives of development from the Federal Government.

Specialized Rating Companies in the closingof 2019.

	Moody's Investor Service	
1	Perspective	Negative
2	Long Term Rating	A3
	Baseline Credit Assesment	ba3
3	Short term	P-2
	Standard & Poor's	
4	Perspective	Negative
5	Issuer Credit Long-term foreign currency	BBB+
6	Issuer Credit Foreign currency Short Term	A-2
	Standard & Poor's National	
7	Natl LT Issuer Credit	mxAAA
8	Natl sT Issuer Credit	mxA-1+
	Fitch Ratings	
9	Perspective z	Stable
10	Issuing Bankruptcy Long-term foreign currency	BBB
11	Issuer bankruptcy Long term Short term	BBB
12	Issuing Bankruptcy Foreign currency Short Term	F2
13	Issuer bankruptcy Long term Short term	F2
13	Support Rating	2
	Fitch National	
15	Natl Long Term	AAA(mex)
16	Natl Sr Unsecured	AAA(mex)
17	Natl Short Term	F1+(mex)

BANCOMEXT

FINANCING PROFILE

The results of the operation and financial situation in 2019 are:

Statement of income

	2019
Interest income	29,862
Interest expenses	(22,664)
Financial margin	7,198
Preventive Estimate for Credit Risks	(1,806)
Financial Margin Adjusted for Credit Risks	5,392
Commissions and fees charged	837
Commissions and fees paid	(51)
Income from intermediation	214
Other Income (expenses) from the operation	182
Exploitations	(6,074)
Administration expenses	(1,955)
Results of Operation	(1,455)
Participation in the Result of Unconsolidated and Associated Subsidiaries	18
Income Before Income Tax	(1,437)
Income Taxes Caused	(7)
Deferred Income Tax	313
Result	**(1,131)**

Before the harnessing, the utility of the operation was 4,619 million pesos, derived from the generated framework by the credit and operation portfolio of the treasury and financial markets, as well as the cost reduction and less constitution of the credit reserves in comparison of 2018.

Statement of Financial Position

	2019
Active	
Availabilities	31,257
Investments in Securities, Reporting Debtors and Derivatives	147,167
Total Credit Portfolio	229,659
Preventive estimate for credit risks	(4,593)
Other Assets and Accounts Receivable	11,052
	414,542

		2019
Pasive		
Traditional catchment		170,839
Interbank and Other Agency Loans		53,415
Reports and Derivatives		135,674
Subordinated Outstanding Obligations		13,249
Other passives		9,541
		382,718
Capital		
Contributed capital		36,148
Lost Capital	(4,324)	
		31,824

On the other hand, the financial indicators presented the following results in December 2019.

FINANCIAL INDICATORS

Concept	**2019**
	Dec
Late payment Index (*)	0.98%
Overdue Credit Portfolio Coverage Index (**)	196.96%
Operating efficiency	0.48%
ROE-1	-3.46%
ROA-1	-0.28%
Capitalization Index on Credit Risk	22.53%
Capitalization Index on Total Risks	18.87%
Liquidity	488.83%
MIN	1.36%

Average data = ((Balance of the quarter under study + Balance of the immediately previous quarter) / 2)

Annualized data = (Accumulated flow to the quarter under study, between the number of quarters elapsed in the year * 4)

(*) Includes Contingent and Generic Obligations, and without these items the indicator would rise to 1.02% as of December 2019

(**) The Coverage Index of the Non-Performing Credit Portfolio without considering the reserves for contingent and generic obligations amounts to 172% and this same indicator on the total portfolio is 1.7%.

-1 These indicators are affected by the payment of uses for 6,074 million pesos; without this effect, ROE amounts to 8.33% and ROA to 0.66%.

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

Consolidated Financial Statements as of December 31, 2019 and 2018 and Independent Auditor's Report

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

CONTENT

RSM

RSM México

The Independent Auditors' Report

To the Ministry of Public Administration and
Board of Directors of
Banco Nacional de Comercio Exterior, S.N.C.,
Institución de Banca de Desarrollo

(Millions of pesos)

Opinion.

We have audited the accompanying consolidated financial statements of **Banco Nacional de Comercio Exterior, S.N.C., Institución de Banca de Desarrollo and subsidiary** (the Institution) which comprise the consolidated balance sheets as of December 31, 2019 the related consolidated statements of income, changes in stockholders' equity and cash flows, corresponding for the year then ended, as well as the explanatory notes to the consolidated financial statements, including a summary of the significant accounting policies.

In our opinion, the accompanying consolidated financial statements of **Banco Nacional de Comercio Exterior, S.N.C., Institución de Banca de Desarrollo and subsidiary**, have been prepared, in all the material respects, in conformity with the Accounting Criteria for Credit Institutions, issued by the National Banking and Securities Commission (CNBV in Spanish).

Basis of the opinion.

We have carried out our audit in conformity with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the section "Auditor's responsibilities for the audit of the consolidated financial statements" of our report. We are independent of the Institution in accordance with the Code of Professional Ethics of the Mexican Institute of Public Accountants, along with the ethics requirements relevant for our audit to the consolidated financial statements in Mexico, and we have complied with our other ethical responsibilities pursuant to requirements and with the Code of Professional Ethics. We believe that the audit evidence we have obtained provides enough and appropriate basis for our opinion.

Other matters

The consolidated financial statements of **Banco Nacional de Comercio Exterior, S.N.C., Institución de Banca de Desarrollo and subsidiary**, corresponding to the year ended on December 31, 2018 were audited by another Accounting Firm, which issued an unqualified opinion in their report dated March 7, 2019.

RSM

RSM Mexico

Responsibilities of the Management and of the persons in charge of the Governance of the Institution on the consolidated financial statements.

The Institution's Management is responsible for the preparation and filing of the consolidated financial statements, in conformity with the Accounting Criteria for Credit Institutions in Mexico issued by the CNBV, and the internal control that the Management considered necessary in order to allow the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those responsible for the Institution's Governance are responsible for the supervision of the process of the Institution's financial information.

Auditors' responsibilities for the audit of the consolidated financial statements.

Our objectives are to obtain reasonable assurance that the consolidated financial statements as a whole are free of material misstatement, due to fraud or error, and issue an audit report with our opinion. Reasonable assurance is a high degree of security, but it does not guarantee that an audit performed in accordance with the ISAs always detect a material misstatement when there is one. The misstatements may be due to fraud or error and they are considered material if, either individually or in group, they might be reasonably foreseen to influence the economic decisions the users make based on the consolidated financial statements.

As part of an audit in accordance with the ISAs, we apply our professional judgement and we keep an attitude of professional skepticism through the entire audit.

We also:

- We identify and value the risks of material misstatement in the consolidated financial statements, due to fraud or error, we design and apply audit procedures in order to respond to such risks, and we obtain enough and proper evidence of audit to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than in the case of a material misstatement due to error, since the fraud may imply collusion, forgery, deliberate omissions, statements intentionally wrong or the avoidance of internal control.

3

RSM

RSM México

- We get to know the internal control relevant for the audit, with the objective of designing proper audit procedures regarding the circumstances and not with the objective of expressing an opinion on the effectiveness of the internal control.

- We evaluate the adequacy of the applied accounting policies and the reasonableness of the accounting estimates and the corresponding information disclosed by the Management.

- We conclude on the adequacy of the use, by the Management, of the accounting principle of going concern and, based on the evidence of audit obtained, we conclude whether there is or not a material uncertainty related to facts or conditions that may arise significant questions on the ability to continue as going concern. If we conclude that there is a material uncertainty, it is necessary to draw the attention to our audit report about the corresponding information disclosed in the consolidated financial statements or, if such disclosures are not proper, to express a modified opinion. Our conclusions are based on the evidence of audit obtained as of the date of our audit report. However, future facts or conditions may be the cause to stop being a going concern.

- We evaluate the global presentation, the structure and content of the consolidated financial statements, including the disclosed information, and whether the consolidated financial statements represent the underlying transactions and facts in a way that they get the fair presentation.

We discuss with those responsible for the Institution's Governance, among other matters, the scope and the time to perform the planned audit and the significant audit findings, as well as any other significant deficiency of internal control which we identify through our audit.

RSM México Bogarín, S.C.

Alberto Alvarez del Campo
Managing Partner

Mexico City, February 26, 2020.

Banco Nacional de Comercio Exterior, S. N. C.,
Institución de Banca de Desarrollo and Subsidiary
Periférico Sur 4333, Mexico City
Consolidated Balance Sheets

December 31, 2019 and 2018

(Millions of Mexican pesos)

Assets	2019	2018
Cash and cash equivalents (note 5)	$ 31,237	27,666
Investment securities (note 6):		
Trading	143,695	134,446
Available for sale	37	55
Held to maturity	571	199
	144,303	134,800
Debtors on repurchase/resale agreements (note 7)	771	774
Derivatives (note 8):		
Trading	425	116
Hedging	1,736	1,371
	2,162	1,487
Current loan portfolio (note 9):		
Commercial loans:		
Business and commercial activities	192,570	188,566
Financial entities	29,212	33,122
Government entities	5,362	3,018
	227,144	224,706
Consumer loans	33	22
Mortgage loans:		
Medium-size and residential	330	81
Total current loan portfolio	227,507	224,807
Past-due loan portfolio (note 9):		
Commercial loans:		
Business and commercial activities	1,244	4,977
Financial entities	1,280	120
Consumer loans	3	1
Mortgage loans:		
Medium-size and residential	5	4
Total past-due loan portfolio	2,532	5,097
Total loan portfolio	229,[illegible]	229,904
Less:		
Allowance for loan losses (note 9e)	4,353	5,363
Total loan portfolio, net	225,686	223,541
Other accounts receivable, net (note 10)	6,750	10,456
Foreclosed assets, net (note 11)	-	20
Property, furniture and equipment, net (note 12)	460	500
Permanent investments (note 13)	600	600
Deferred income taxes and employees' statutory profit sharing, net (note 19)	2,689	2,214
Other assets:		
Deferred charges, prepayments and intangible assets	594	242
Other current and long-term assets (note 14)	-	483
Total assets	$ 414,542	400,443

Liabilities and stockholders' equity	2019	2018
Deposits:		
Time deposits:		
Money market (note 15)	$ 129,857	117,436
Debt instruments issued (note 15)	45,372	42,115
	175,229	159,551
Due to banks and other institutions (note 16):		
Payable on demand	1,729	2,044
Short-term	33,133	45,128
Long-term	17,544	13,827
	[illegible]	[illegible]
Creditors from repurchase/resale agreements (note 7)	129,[illegible]	125,[illegible]
Derivatives (note 8):		
Trading	253	41
Hedging	5,423	8,946
	5,676	8,987
Other accounts payable:		
Income tax payable (note 19)	5	525
Employee statutory profit sharing payable	-	182
Settlement transactions	3,073	134
Collateral received in cash (note 8)	272	17
Sundry creditors and other accounts payable (notes 17 and 18)	4,721	2,179
	8,073	3,381
Subordinated debt issue (note 20)	11,546	12,564
Deferred credits and advance collections	668	777
Total liabilities	382,718	371,547
Stockholders' equity (note 21):		
Contributed capital:		
Capital stock	28,034	28,034
Contributions for future capital stock increases	8,033	5,586
Share premium	81	81
	36,148	31,001
Earned (lost) capital:		
Capital reserves	141	141
Cumulative results	(1,218)	(1,263)
Unrealized gain from valuation of available for sale securities	6	2
Employee benefits adjustments	(2,301)	483
Result from holding of non-monetary assets	(20)	(20)
Net income	(1,151)	47
Noncontrolling interest	-	-
	(4,324)	(605)
Total stockholders' equity	31,824	28,896
Total liabilities and stockholders' equity	$ 414,542	400,443

(Continued)

Banco Nacional de Comercio Exterior, S. N. C.,
Institución de Banca de Desarrollo and Subsidiary
Periférico Sur 4333, Mexico City
Consolidated Balance Sheets (continued)

December 31, 2019 and 2018

(Millions of Mexican pesos)

Memorandum accounts:

		2019	2018
Guarantees issued (note 24)	$	1,196	1,288
Contingent assets and liabilities (note 25)		15,218	14,847
Loan commitments		96,561	121,439
Goods in trust or under mandate (note 26):			
Trusts		95,448	93,285
Mandates		7,764	4,284
Assets in trust or under administration (note 27)		1,085,975	1,132,504
Collaterals received by the entity (note 7)		2,870	5,973
Collaterals received and sold or pledged by the entity (note 7)		1,580	3,000
Uncollected interests earned on past-due loan portfolio		544	537
Loan portfolio rated		283,160	261,333
Other memorandum accounts		261,058	203,823

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

The historical capital stock as of the dates of these consolidated financial statements amounts to $27,584.

These consolidated balance sheets 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 for Credit Institutions, which are general and mandatory, and were consistently applied. These balance sheets reflect the Institution's 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. These consolidated balance sheets were approved by the Board of Directors under the responsibility of the undersigned officers.

The capitalization ratio for assets subject to credit risk is 22.53% and for assets subject to total risks is 16.87% at December 2019 (22.10% and 16.79%, respectively, in 2018) which is the latest information validated by the Central Bank.

The web site of the global network called Internet of Banco Nacional de Comercio Exterior, S.N.C., where the information regarding these statements is located is http://www.bancomext.com/conoce-bancomext/bancomext-en-cifras/estadistica-e-indicadores-financieros. The web site of the National Banking and Securities Commission where you can consult the financial information of Bancomext is http://www.cnbv.gob.mx/SECTORES-SUPERVISADOS/BANCA-DE-DESARROLLO/Informacion-Estadistica/Paginas/Banca-de-Desarrollo.aspx.

Eugenio Francisco Domingo Nájera Solórzano
Chief Executive Officer

José Alberto Gómez Sandoval
Deputy General Director of Administration and Finance

Julia Noemí Rodríguez Kú
Director of Accounting and Budget

Víctor Manuel Jiménez García
Director of Internal Audit

Banco Nacional de Comercio Exterior, S. N. C.,
Institución de Banca de Desarrollo and Subsidiary
Periférico Sur 4333, Mexico City
Consolidated Income Statements

For the years ended December 31, 2019 and 2018

(Millions of Mexican pesos)

		2019	2018
Interest income (notes 6, 7, 9 and 23a)	$	29,862	28,916
Interest expense (note 23b)		(22,664)	(22,415)
Financial margin		7,198	6,501
Allowance for loan losses (note 9b)		(1,806)	(2,068)
Financial margin adjusted for loan losses		5,392	4,433
Commissions and fees income (note 23b)		837	810
Commissions and fees expenses		(61)	(35)
Financial intermediation income (note 23c)		214	123
Other operating incomes (expenses) (note 23d)		(5,879)	(3,304)
Administrative and promotional expenses		(1,958)	(2,204)
		(6,847)	(4,610)
Operating loss		(1,455)	(177)
Equity results of associated companies (note 13)		18	59
Loss before income taxes		(1,437)	(118)
Current income taxes (note 18)		(7)	(532)
Deferred income taxes (note 18)		313	697
		306	165
Net controlling interest		(1,131)	47
Non-controlling interest		-	-
Net income	$	(1,131)	47

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

These consolidated income statements 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 for Credit Institutions, which are general and mandatory, and were consistently applied. These consolidated income statements reflect the Institution's income and expenses arising from operations recorded during the above mentioned years, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

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

The web site of the global network called Internet of Banco Nacional de Comercio Exterior, S.N.C., where the information regarding these statements is located is http://www.bancomext.com/conoce-bancomext/bancomext-en-cifras/estadistica-e-indicadores-financieros. The web site of the National Banking and Securities Commission where you can consult the financial information of Bancomext is http://www.cnbv.gob.mx/SECTORES-SUPERVISADOS/BANCA-DE-DESARROLLO/Informacion-Estadistica/Paginas/Banca-de-Desarrollo.aspx.

Eugenio Francisco Domingo Nájera Solórzano
Chief Executive Officer

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Deputy General Director of Administration and Finance

Julia Noemí Rodríguez Kú
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Banco Nacional de Comercio Exterior, S.N.C.,
Institución de Banca de Desarrollo and Subsidiary
Periférico Sur 4333, Mexico City
Consolidated Statement of Changes in Stockholders' Equity

Years ended December 31, 2019 and 2018

(Millions of Mexican pesos)

	Capital stock	Contributions for future capital increases	Share premium	Capital reserves	Cumulative results	Unrealized gain (loss) from valuation of available-for-sale securities	Remeasurement employee benefits adjustments	Result from holding of non-monetary assets	Net income	Non-controlling interests	Total Stockholders' Equity
Balance at December 31, 2017	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Movements inherent to owners' decisions:											
Balance at December 31, 2018	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Movements inherent to owners' decisions:											
Movements inherent to recognition of comprehensive income:											
Balance at December 31, 2019	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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

[illegible]

Chief Executive Officer

Deputy General Director of Administration and Finance

Director of Accounting and Budget

Director of Internal Audit

Banco Nacional de Comercio Exterior, S.N.C.,
Institución de Banca de Desarrollo and Subsidiary
Periférico Sur 4333, Mexico City
Consolidated Statement of Cash Flows

Years ended December 31, 2019 and 2018

(Millions of Mexican pesos)

	2019	2018
Net income	$ (1,103)	47
Adjustments for noncash items:		
Depreciation	75	52
Provisions	(150)	(49)
Current and deferred income taxes	(206)	(163)
Equity in the results of associated companies	(78)	(51)
	(458)	(261)
	(1,390)	(214)
Operating activities		
Change in investment securities	(3,841)	26,331
Change in debtors under resale/repurchase agreements	0	7,364
Change in derivatives (assets)	(309)	37
Change in loan portfolio (net)	(50)	(18,341)
Change in foreclosed assets (net)	17	-
Change in other operating assets (net)	3,343	861
Change in deposits	8,818	2,033
Change in due to banks and other institutions	(6,907)	8,121
Change in creditors on resale/repurchase agreements	1,677	(40,393)
Change in collaterals sold or pledged	234	17
Change in derivatives (liabilities)	119	(67)
Change in subordinated debt issue	(109)	46
Change in other operating liabilities	1,306	(28)
Income taxes paid	(107)	(215)
	839	(6,993)
Net cash provided by operating activities	(550)	(7,207)
Investing activities		
Charge for disposal of properties, furniture and equipment	4	–
Payments for acquisition of property, furniture and equipment	(2)	(95)
Payments for the acquisition of other permanent investments	–	(2)
Net cash flows of investment activities	2	(97)
Financing activities		
Contributions for future capital increases	4,647	2,086
Net cash flows of financing activities	4,647	2,586
Net increase (decrease) in cash and cash equivalents	3,890	(3,878)
Cash and cash equivalents at the beginning of year	27,366	31,244
Cash and cash equivalents at the end of year	$ 31,256	27,366

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

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, pursuant to Articles 99, 101 and 102 of the Law for Credit Institutions, which are general and mandatory, and were consistently applied. These consolidated statements of cash flows reflect the institution's cash inflows and outflows arising from operations recorded during the above mentioned years, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

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

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Chief Executive Officer

Deputy General Director of Administration and Finance

Director of Accounting and Budget

Director of Internal Audit

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

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Millions of Mexican pesos)

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

(1) Description of business-

Incorporation-

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

On June 8, 1937, was founded Banco Nacional de Comercio Exterior, S. A. On July 12, 1985, following the Mexican nationalization of banks, the Institution became Banco Nacional de Comercio Exterior, S.N.C., Institución de Banca de Desarrollo. On January 20, 1986, Congress issued the "Integral Law of Banco Nacional de Comercio Exterior" (the "Organic Law"). Based on the provisions published in the June 24, 2002 Official Gazette, the Ministry of Finance (SHCP for its acronym in Spanish) amended, added and repealed various provisions thereof, especially aspects regarding the objectives, operations, administration, supervisions and authority of the Board of Directors of the Institution, and the powers of the Institution's General Director. On April 2, 1991, the SHCP issued the Integral Regulations of the Institution. On September 25, 2017, the Official Gazette published a new set of amendments to the Organic Law.

Activity-

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

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

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

The accompanying consolidated financial statements at December 31, 2019 and 2018 and for the years then ended include those of the Institution and its subsidiary Desarrollo Inmobiliario Especializado, S.A. de C.V. (DIESA).

The description of the corporate purpose of the subsidiary and its participation in equity are described in the following sheet.

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

Notes to Consolidated Financial Statements

(Millions of Mexican pesos)

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

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

(2) Financial Statement authorization and presentation-

Authorization-

The accompanying consolidated financial statements and their notes as of December 31, 2019 and for the year then ended, were authorized by the executives that subscribe them: Eugenio Francisco Domingo Nájera Solórzano (Chief Executive Officer), José Alberto Gómez Sandoval (Deputy General Director of Administration and Finance), Julia Noemí Rodríguez Kó (Director of Accounting and Budget) and Víctor Manuel Jiménez García (Director of Internal Audit) and the Board of Directors in the session of February 26, 2020 (March 7, 2019, for the consolidated financial statements of 2018).

In accordance with the General Corporations Law and the Institution's bylaws, and the general criteria applicable to Credit Institutions in Mexico, issued by the CNBV, the Institution's Board of Directors and the CNBV are empowered to modify the accompanying consolidated financial statements for 2019, after issuance.

Basis of preparation-

a) Statement of compliance

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

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

b) Use of estimates and judgments

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

Assumptions and estimation uncertainties

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

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

c) Functional and reporting currency

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

For purposes of disclosure in the notes to consolidated financial statements, when referred to pesos or "$", it means millions of Mexican pesos, except when it is mentioned different, and USD or dollars, it means U.S. dollars.

(3) *Summary of significant accounting policies-*

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

(a) Recognition of the effects of inflation-

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

		Inflation	
December 31	**UDI**	**Of the year**	**Accumulated**
2019	6.399018	2.77%	15.03%
2018	6.226631	4.92%	15.71%
2017	5.934551	6.68%	12.60%

(b) Principles of consolidation-

The consolidated financial statements include those of the Institution and those of its subsidiary over which it has control, DIESA. The transactions, balances and profits and losses unrealized as a result of the transactions between the Institution and DIESA have been eliminated in preparing the consolidated financial statements. The consolidation was based on the financial statements of DIESA, as of December 31, 2019 and 2018 and for the years then ended, which have been prepared in accordance with the accounting criteria for credit institutions in Mexico.

(c) Cash and cash equivalents-

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

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

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

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

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

(d) Investments in securities-

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

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

Trading securities-

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

Available for sale securities-

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

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

Held to maturity securities-

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

Impairment of a security-

The Institution evaluated whether or not there was objective evidence that a security had been impaired by considering the following matters, among others: significant financial difficulties of the issuer of the security; the likelihood of the issuer filing for bankruptcy or undergoing another type of financial reorganization; breach of the contractual clauses; the disappearance of an active market for that specific security due to financial difficulties, or the existence of a measurable decrease in estimated future cash flows. Based on the aforementioned evaluation, the Institution did not observe objective evidence of impairment of the securities of December 31, 2019 and 2018.

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

Value date transactions-

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

Transfer between categories-

Transfers can be made from the category "Held to maturity securities" to "Available for sale securities", provided that it is not intended to or able to hold them to maturity. Any type of category may be reclassified to "Held to maturity securities" and from "Trading instruments" to "Available for sale securities" under extraordinary circumstances upon explicit authorization from the CNBV. Furthermore, the sale of "Held to maturity securities" must be reported to the CNBV. For the years ended on December 31, 2019 and 2018, the Institution did not enter into any transfers between categories, and/or sales of held to maturity securities.

(e) Repurchase/resale agreements-

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

Acting as a seller on resale agreements-

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

Acting as a buyer on repurchase agreements-

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

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

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

(f) Derivative financial instruments-

The Institution carries out operations with derivative financial instruments held for trading, in order to earn profits in accordance with the policies and limits established by the Comprehensive Risk Management Committee (CAIR for its acronym in Spanish), and for hedge purposes in order to compensate market risks arising from fluctuations in exchange and interest rates, as well as from counterparty risk. In accordance with criterion B-5 "Derivative instruments and hedge operations" issued by the CNBV, hedge operations are classified as fair value, cash flows and foreign currency operations: the operations carried out by the Institution were classified as fair value.

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

Futures and forward contracts

As a participant in the futures market, the Institution hedges its risk positions associated to USD (assets and liabilities), and for purchase/sale of Mexican pesos against US dollars, or of the US dollar against other foreign currencies.

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

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

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

At December 31, 2019 and 2018, the Institution had no operations in futures markets or forward contracts.

Swap operations

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

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

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

Options contracts

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

Trading derivatives

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

Hedging derivatives

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

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

(g) Offsetting clearing accounts-

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

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

(h) Loan portfolio-

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

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

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

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

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

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

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

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

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

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

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

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

Restructured and renewed loans

Restructured loans remain in the past-due loan portfolio and the level of the allowance for loan losses is maintained until there is evidence of sustained payment.

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

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

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

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

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

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

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

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

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

Troubled debt portfolio

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

Suspension of interest accrual-

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

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

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

(Millions of Mexican pesos)

(i) Allowance for loan losses-

The commercial loan portfolio was rated on December 31, 2019 and 2018 in adherence to loan portfolio provisions issued by the CNBV on June 24, 2013 and its subsequent amendments. That rating is based on an expected loss model that considers the likelihood of default, the severity of the loss and the exposure to default, while the consumer loan and mortgage portfolio was rated as per the methodology for rating nonrevolving consumer loan and mortgage portfolios referred to in point A of Sections One and Two of Chapter V, Title Two, of the General Provisions applicable to Credit Institutions published in the amending resolution of October 25, 2010 and subsequent amendment.

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

Each of these methodologies are explained as follow:

General Methodology based in expected credit loss model for credit risk

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

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

Where:

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

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

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

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

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

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

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

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

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

IV. Financial Entities (Exhibit 20).

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

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

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

(Millions of Mexican pesos)

Methodology for rating consumer and mortgage loan portfolios -

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

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

The additional reserves recognized by the are those set up to cover risks that were not considered in the different methodologies for rating loan portfolios, and whose origin, methodology for determination thereof, amount and term were all reported to the CNBV prior to their creation. As of December 31, 2019, the Institution recorded additional allowance for loan losses for $464. As of December 31, 2018, the Institution did not record additional allowance for loan losses.

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

The surplus in the allowance for loan losses is canceled against income for the period, affecting the items from which it originated i.e., the loan loss reserve. If the amount to be written-off exceeds the recorded estimate, it is recorded as other operating income.

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

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

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

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

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

(j) Other accounts receivable, net-

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

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

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

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

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

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

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

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

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

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

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

(Millions of Mexican pesos)

a) Collection rights or movable property

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

b) Real property

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

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

(l) Property, furniture and equipment, net-

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

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

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

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

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

(m) Permanent investments in associates-

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

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

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

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

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

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

(o) Deposits funding-

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

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

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

(p) Due to banks and other institutions-

Liabilities arising from interbank loans are recorded based on the contractual value of the obligation, interest accrued is recognized directly in the Institution's income as an interest expense.

(q) Provisions-

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

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

(r) Sundry creditors and other accounts payable-

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

(s) Employee benefits-

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

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

The Institution opted to recognize 20% of remeasured accumulated actuarial gains or losses as from 2021, in a maximum period of 5 years. Those balances must be recognized at the end of each period, after providing timely notice of that option to the CNBV.

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

Retirement benefit obligations are quantified under the projected unit-credit method, determined by an actuarial calculation performed by independent experts as of December 31, 2019 and 2018.

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

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

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

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

In 2019 and 2018, the net cost for the period includes recycling of remeasured accumulated actuarial losses at December 31, 2015, as well as the profits and losses recorded in the OCI in accordance with the average remaining labor life.

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

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

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

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

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

(u) Stockholders´ equity-

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

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

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

The amount of comprehensive income shown in the statement of changes in stockholders´ equity is the result of the Institution´s performance in the period and it is comprised by the net income plus items in accordance with specific provisions were directly recorded in stockholders´ equity and do not constitute capital contributions, reductions or distributions. The comprehensive income for 2019 and 2018 is expressed in millions of historical pesos.

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

(v) Trust operations-

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

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

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

(w) Custody and administration operations-

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

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

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

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

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

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

(x) Income recognition-

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

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

(y) Foreign currency operations-

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

The Institution complies with the following standards and limits issued by Banco de Mexico for foreign currency operations:

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

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

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

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

(z) Contingencies-

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

(aa) Information by segments-

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

(bb) Related parties-

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

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

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

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

(4) Foreign currency operations-

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

	2019 (In thousands)					
Currencies	Assets	Liability	Position in Currency Source	Exchange Rate In Mexican pesos		Millions of Mexican pesos
	Currency source					
US Dollar	8,765,749	8,763,595	$2,154	18.86420	$	41
Pound sterling	227	14	213	24.98375		5
Euro	78,205	70,767	7,438	21.17506		157
					$	203

	2018 (In thousands)						
Currencies	Assets	Liability	Position in Currency Source		Exchange rate Position		Millions of Mexican pesos
	Currency source						
US Dollar	8,507,788	8,496,898	10,890	$	19.65120	$	214
Pound sterling	255	14	241		25.04742		6
Euro	45,383	43,009	2,374		22.46918		53
						$	273

The exchange risk position (not covered), as a whole and by currency does not exceed 15% of the Institution's core capital, which totals USD 246,679 thousand and USD 220,300 thousand at December 31, 2019 and 2018, respectively.

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

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

Notes to Consolidated Financial Statements

(Millions of Mexican pesos, unless specified otherwise)

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

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

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

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

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

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

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

(5) Cash and cash equivalents-

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

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

Notes to Consolidated Financial Statements

(Millions of Mexican pesos, unless specified otherwise)

		2019	2018
Cash, bills and coins		6	6
Demand deposits	$	17,996	16,645
Deposits in the Treasury of the Federation		4,640	-
Time deposits		3,492	5,253
Deposits in domestic banks		3,411	3,987
Deposits in foreign banks		1,377	650
Interbank loans (Call Money)		327	827
	$	31,257	27,368

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

Demand deposits:

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

Time deposits:

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

Domestic bank deposits:

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

Deposits in foreign banks:

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

Call Money:

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

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

Currency purchase (Spot):

According to the current regulation for Credit Institutions, the item of Cash and cash equivalents, states that if any concept is with a negative balance, it should be reclassified as a liability in the item of Other Accounts Payable. As of December 31, 2019 and 2018, the net balance of currencies to be received and delivered was reclassified for $153 and $ 72, respectively, in accordance with the Accounting Criteria for Credit Institutions.

(6) Investments in securities-

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

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

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

a. Trading securities:

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

- Repurchase agreements

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

	2019				2018			
Instrument	Acquisition cost	Accrued interests	Increase (decrease) for valuation	Fair value	Acquisition cost	Accrued interests	Increase (decrease) for valuation	Fair value
BONDES D	100,920	299	93	$101,312	89,658	241	94	$89,993
BONOS	32	-	1	33	-	-	-	-
BPAG182	15,635	397	48	16,079	11,144	268	(18)	11,394
BPAG28	2,992	11	-	3,003	4,221	4	-	4,225
BPA091	10,512	104	31	10,647	18,797	229	(6)	19,020
CKTES	1,927	-	(1)	1,926	1,259	-	(2)	1,257
UDIBONOS	499	2	(4)	497	-	-	-	-
	132,507	815	168	$133,490	125,079	742	68	$125,889

In 2019, the purchase value date of BONDES D and UDIBONOS which are considered restricted, as well as the sale value date of BONOS, with a fair value of $3,622.

(Millions of Mexican pesos)
(Millions of Mexican pesos, unless specified otherwise)

Held to maturity securities:

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

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

- Unrestricted government bonds

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

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

Maturity terms:

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

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

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

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

b. Available for sale securities:

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

- Shares in Mexican pesos

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

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

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

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

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

Dividends collected from shares available for sale in 2019 and 2018 amount to $1 in both years. The valuation recognized in the other items of the comprehensive income within the stockholders' equity for the years ended on December 31, 2019 and 2018, was $2 and $0, respectively.

- Obligations and other securities

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

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

* Impairment recognized in income from prior fiscal years.

c. Held to maturity securities:

		2019	2018
Government bonds	$	171	168

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

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

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

d. Interest income, results of valuation and results of purchase and sale of securities for the years ended on December 31, 2019 and 2018:

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

(7) **Repurchase/resale agreements-**

Repurchase/resale agreements carried out at December 31, 2019 and 2018 were mainly Savings Protection Bonds, Development Bonds, Fixed Rate Bonds, Government bonds (Cetes), Udibonds and stock exchange certificates; repurchase operation terms were of 2 days in both years.

a. Seller

- Debtors under repurchase/resale agreements

		2019	2018
Government bonds	$	1,500	5,000
Commercial repurchases		771	773
Total		2,351	5,773
Securities received as collateral for repurchase agreements:			
Government bonds		(1,500)	(5,000)
Total debtors for repurchase/resale agreements	$	771	773

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- Collateral received by the entity (Memorandum accounts)

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

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

		2019	2018
Government bonds	$	1,580	5,000

b. Buyer

- Creditors for repurchase agreements

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

1 Repurchased securities are recognized as securities held for trading.

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

(8) Derivatives-

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

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

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

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

To hedge the loan portfolio:

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

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

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To hedge security or bond liabilities:

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

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

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For trading:

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

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

(Millions of Mexican pesos, unless specified otherwise)
(Millions of Mexican pesos)

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

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

Options for trading purposes

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

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

Guarantees granted and received in operations in unrecognized markets:

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

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

(9) Loan portfolio-

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

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

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

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

Business Development

1. Development and/or Updating of Programs / Products
2. Promotion management – first tier
3. Promotion management – second tier
4. First tier credit files management
   Addendum No. 1 and Addendum No. 2
5. Second tier credit files management
   Addendum No. 1

Analysis and Decisions

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

Instrumentation and disbursement

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

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

Recovery

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

Support Processes

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

Other Loan Programs

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

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

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

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

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

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

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

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

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

- Preventive collection will include a period from day 1 to day 4 (natural) counted from non-payment.
- The administrative collection will include a period from day 5 and up to day 30 (natural) counted from non-payment.
- Extrajudicial collection will include a period from the 31st and up to the 90th day (natural) counting from the date of non-payment.
- The judicial collection, if after a period of 90 days after its expiration, no positive results were obtained in the collection management, or earlier if the insolvency of the accredited or intermediary is detected or presumed, or of any situation that impedes its recovery, it is the turn to recover by court.

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

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

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

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

Concentration risk

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

Per borrower:

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

In accordance with article 57 of those Provisions, the regulatory limits applicable to the Institution in the fourth quarter of 2019 were determined considering the 13.68% capital ratio and core capital of $31,491.6 as of June 2019. Regulatory limits are 30% of the core capital ($9,447.4, equivalent to 500.8 million of USD at the exchange rate of $18.8642 pesos/dollar as of December 31, 2019) per private sector borrower and 100% of the core capital ($31,491.6, equivalent to 1,669.3 million of USD) for other types of borrowers.

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

Prudential limits applicable to the Institution in the quarter in question are $8,030.3 (equivalent to $425.7 million of dollars) per borrower of the private sector and $26,767.8 (equivalent to $1,419.0 million of dollars) for other types of borrowers.

However, the Institution determines financing amounts below the prudential limits as part of its internal measures to prevent concentrations and supervening facts to the granting of loans. The internal financing policy established by management per borrower or group of borrowers of the private sector when represent Common Risks is of $230 million of dollars, equivalent of $4,338.8, which comprises 13.8% of the core capital.

Per economic sector:

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

(a) Loan portfolio-

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

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

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

		2019		2018	
Sector per economic activity		**Amount**	**%**	**Amount**	**%**
Tourism	$	33,710	14.68	32,334	14.06
Electricity, gas and water		26,865	11.70	25,098	10.92
Steel products, machinery and equipment		23,659	10.30	23,773	10.34
Real property and lease services		23,122	10.07	28,166	12.25
Transportation and communication		22,293	9.71	20,845	9.07
Commerce		14,756	6.43	15,061	6.55
Food, beverages and tobacco		11,358	4.95	8,221	3.58
Chemical substances and plastic or rubber items		8,116	3.53	14,556	6.33
Non-metal mineral products		6,678	2.91	5,849	2.54
Professional, personal and technical services		5,517	2.40	3,869	1.68
Metal industry		4,245	1.85	4,455	1.94
Oil and natural gas extraction		3,814	1.66	-	-
Construction industry		3,560	1.55	3,769	1.64
Paper, print shops and publishing houses		2,774	1.21	2,649	1.15
Textiles, clothing and leather industry		836	0.36	600	0.26
Lumber and Wood products industry		698	0.30	745	0.32
Mining		510	0.22	846	0.37
Unclassified services		460	0.20	1,215	0.53
Agricultural industry		30	0.01	60	0.03
Individuals		141	0.06	106	0.05
Adjustment to the book value of the hedged item		865	0.38	(574)	(0.25)
Private sector	$	194,015	84.48	191,643	83.36
Government sector		5,352	2.33	5,018	2.18
Financial sector		30,292	13.19	33,243	14.46
Total	$	**229,659**	**100.00**	**229,904**	**100.00**

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

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

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

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

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

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

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(Millions of Mexican pesos)

Restructured and renewed loans-

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

	2018				
	Restructured and renewed loan				Modified
Type of portfolio:	Past due restructured[1]	Allocated to past due[2]	Kept current[3]	Consolidated to past due[4]	Not considered restructure[5]
Commercial loans	$ 1,001	$ 32	$ 28,197	$ 225	$ 5,944
Consumer loans	-	-	-	-	1
Mortgage loans	2	-	-	-	15
	$ 1,003	$ 32	$ 28,197	$ 225	$ 5,960

1. Past due loans that were restructured or renewed.
2. Restructuring or renewal of loans with a single payment of principal at maturity and periodic payments of interest and credits with a single payment of principal and interest at maturity, which were transferred to past due portfolio for having restructured or renewed.
3. Restructured or renewed loans that were kept in current portfolio in accordance with paragraphs 80 to 87 of criterion B-6 "Credit portfolio" of Exhibit 33 of the Provisions.
4. Consolidated loans that, as a result of a restructuring or renewal, were transferred to past due loans, in accordance with paragraph 88 of criterion B-6 "Credit portfolio" of Exhibit 33 of the Provisions.
5. Restructured loans to which the criteria relating to the transfer to past due portfolio in accordance with paragraph 89 of criterion B-6 "Credit portfolio" of Exhibit 33 of the Provisions were not applied.

On October 31, 2013 a debt recognition, interest capitalization and reorganization agreement were formalized with a foreign financial entity, whereby it was agreed to recover a total of USD146.3 million and which is recognized in memorandum accounts. According to such agreement, the amount mentioned will be recovered in a term of 15 years through quarterly payments. On August 5, 2019, it fell into default, the recovery of debts is being negotiated At December 31, 2019 and 2018, the equity balance amounts to USD 88 million and USD 93 millions, respectively.

Additional guarantees and concessions issued for restructured loans-

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

Interests and commissions-

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

Commissions on initial granting of loans-

Commissions collected upon initial granting of loans not yet deferred at December 31, 2019 and 2018 amounted to $846 and $733, respectively are offset against income for the year as interest income by the straight-line method over the life of the loan. The weighted term for amortizing commissions as of December 31, 2019 and 2018 was 5.17 and 4.82 years, respectively.

Rediscounts-

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

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

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

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

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

A) Valued at the exchange rates at December 31, 2019 and December 31, 2018.
B) Rated portfolio.
C) It includes of the commercial portfolio, government entities, financial intermediaries and irrevocable guarantees, and letters of credit and international factoring.
D) Does not include the consumer loan and mortgage portfolio.
E) Past due interest is included for information purposes, as established in the provisions for rating portfolios and reserved as incurred.

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

(b) *Allowance for loan losses-*

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

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

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

Does not include the rating exempt portfolio of $33.

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Allowance required per risk group at December 31, 2019-

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

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

Rating		Commercial	Government entities	Financial intermediaries	Guarantees and factoring	Mortgage portfolio	Consumer loan portfolio	Total
A-1 Minimum	$	161,472	4,972	22,446	29,147	70	-	218,107
A-2 Minimum		17,783	-	8,181	1,666	5	-	27,635
B-1 Low		3,220	-	2,494	-	-	-	5,714
B-2 Low		126	-	444	-	1	17	587
B-3 Low		2,690	-	-	25	3	1	2,719
C-1 Medium		127	-	39	-	1	-	167
C-2 Medium		69	-	-	-	3	1	73
D High		504	-	-	-	-	-	504
E Irrecoverable		5,565	-	120	-	2	2	5,689
Subtotal		191,555	4,972	33,724	30,838	85	21	261,195
Past due interests		93	-	-	-	-	-	93
Total	**$**	**191,648**	**4,972**	**33,724**	**30,838**	**85**	**21**	**261,288**

Does not include the rating exempt portfolio of $46.

Allowance required per risk group at December 31, 2018-

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

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

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

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

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

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

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

Criterion B-6 "Loan portfolio" of Exhibit 33 of the general Dispositions applicable to the Credit Institutions in Mexico establishes that the Institution may opt to eliminate from its assets any past due loans that have been reserved 100%. In 2019, the Institution applied the balance of 3 loans against the allowance for loan losses for a total for an amount of $4,013. In 2018, the Institution applied the balance of 11 loans against the loan loss reserve for an amount of $39.

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

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

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

As of December 31, 2019 and 2018, the amount of the recoveries of this loan portfolio eliminated from the asset was $93 and $463, respectively, and were recorded in Allowance for loan losses of income statement.

The balance of the rating-exempt portfolio (Federal Government and Development Banking) amounts to $33 and $46 in 2019 and 2018, respectively.

Interest income recognized in loans at capitalization time-

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

(Millions of Mexican pesos)
(Millions of Mexican pesos, unless specified otherwise)

Credit lines-

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

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

(10) Other accounts receivable, net-

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

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

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

(11) Foreclosed assets-

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

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

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

(Millions of Mexican pesos)

Allowance for foreclosed assets -

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

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

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

(12) Property, furniture and equipment, net-

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

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

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

(13) Permanent investments-

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

Participation (%)

Company	2019	2018	Activity
Cesce México, S. A. de C. V. (CESCEMEX)	48.99	48.99	Insurance
Corporación Mexicana de Inversiones de Capital, S. A. de C. V. (CMIC)	5.39	5.46	Investment fund

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

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

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

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

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

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

d. Investments in shares of associated companies located in Mexico in which there is no control or significant influence are shown valued by the acquisition cost method. The acquisition cost of other permanent investments in shares amounts to $84 and $70 in 2019 and 2018.

(14) Time deposits-

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

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

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

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

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

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

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

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

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

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

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

(15) Debt instruments issued-

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

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

(Millions of Mexican pesos)
(Millions of Mexican pesos, unless specified otherwise)

Following are the features of the debt securities:

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

2018								
Issue date	Maturity date	Rate	Effective rate	Term days	Amount	Nominal value	Interest	Total
16/07/2012	04/07/2022	5.75%	5.76%	916	15,000,000	$ 1,500	42	1,542
23/11/2012	11/11/2022	5.94%	5.95%	1,046	20,000,000	2,000	15	2,015
01/03/2013	17/02/2023	5.61%	5.62%	1,144	30,000,000	3,000	60	3,060
16/12/2014	03/12/2024	6.54%	6.55%	1,799	35,000,000	3,500	13	3,513
27/06/2017	23/06/2020	TIIE-0.02	7.35%	175	40,000,000	4,000	18	4,018
27/06/2017	18/06/2024	7.42%	7.70%	1,631	30,000,000	3,000	5	3,005
29/05/2018	18/06/2024	7.42%	7.70%	1,631	21,400,000	2,140	-	2,140
29/05/2018	25/05/2021	TIIE-0.05	7.85%	511	51,200,000	5,120	24	5,144
29/05/2018	23/05/2023	TIIE-0.01	7.87%	1,239	7,400,000	740	3	743
Allocation discount								(67)
						$		25,113

At December 31, 2019 and 2018, the Institution has issuance of stock certificates, each issue is under the protection of a Registration, which is deposited in the S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V.

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

The features of bank bonds are as follow:

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

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

At December 31, 2019 and 2018, the Institution has placed a Macro Title in the International Market, which is deposited in the Depository Trust Company with a nominal value of 1,000 million US dollars, the rights and form of redemption is the payment of interest and amortization of principal on the maturity date. Likewise, the proportion between the authorized amount and the one issued is 100% and the effective rate is 4.53%.

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

USD 600 millions to Libor$_{3M}$ + 233.45 basis point (bp)USD 400 millions to Libor $_{[illegible]}$ + 221.00 bp

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

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

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(Millions of Mexican pesos, unless specified otherwise)

(16) Due to bank and other entities-

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

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

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

a. Call money

2019				Short-term		Long-term		
Counterparty	Currency	Rate	Currency source Millions	Value in books	Average term (days)	Value in books	Average term (years)	Total
Domestic banks	DLS	From 1.45% to 1.50%	145	2,728	3	-	-	$ 2,728

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b. Guaranteed credit lines

2019				Short-term		Long-term		
Counterparty	Currency	Rate	Currency source Millions	Value in books	Average term (days)	Value in books	Average term (years)	Total
Foreign banks	DLS	From 1.90 to 1.25%	671	958	68	11,698	6	$ 12,656
Foreign banks	Euros	2.00	0.07	1	91	-	-	1
				959		11,698		$ 12,657

c. Commercial credit lines

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

d. Implementing agent

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

e. Official bodies

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

f. Development banking

2019

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

g. Federal Government Loans

2019

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

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

a. Call money

2018

				Short-term		Long-term		
Counterparty	Currency	Rate	Currency source Millions	Value in books	Average term (days)	Value in books	Average term (years)	Total
Domestic banks	DLS	From 2.20 to 2.25%	104	2,044	2	-	-	$ 2,044

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b. Guaranteed credit lines

2018

				Short-term		Long-term		
Counterparty	Currency	Rate	Currency source Millions	Value in books	Average term (days)	Value in books	Average term (years)	Total
Foreign Banks	DLS	From 1.25 to 3.90%	425	816	64	7,537	7	$ 8,353
Foreign Banks	Euros	2.00	0.13	1	90	2	2	3
				817		7,539		$ 8,356

c. Commercial credit lines

2018

				Short-term		Long-term		
Counterparty	Currency	Rate	Currency source Millions	Value in books	Average term (days)	Value in books	Average term (years)	Total
Foreign banks	DLS	From 2.25 to 3.47%	1,213	23,836	161			$ 23,836
Domestic banks	MXP	From 8.03 to 8.60	12,400	12,400	122			12,400
				36,236				$ 36,236

d. Implementing agent

2018

				Short-term		Long-term		
Counterparty	Currency	Rate	Currency source Millions	Value in books	Average term (days)	Value in books	Average term (years)	Total
International Bodies and Foreign Banks	DLS	From 3.42 to 3.44%	205	12	135	4,009	13	$ 4,021

e. Official bodies

2018

				Short-term		Long-term		
Counterparty	Currency	Rate	Currency source Millions	Value in books	Average term (days)	Value in books	Average term (years)	Total
International bodies	DLS	From 2.96 to 3.09%	130	2,555	81	-	-	$ 2,555

(Millions of Mexican pesos, unless specified otherwise)
(Millions of Mexican pesos)

f. Development banking

2018				Short-term		Long-term		
Counterparty	Currency	Rate	Currency source Millions	Value in books	Average term (days)	Value in books	Average term (years)	Total
Domestic banks	DLS	From 2.20 to 2.69%	283	5,559	19	-	-	$ 5,559

g. Federal Government Loans

2018				Short-term		Long-term		
Counterparty	Currency	Rate	Currency source Millions	Value in books	Average term (days)	Value in books	Average term (years)	Total
Domestic Banks	MXP	7.97	70	-	-	70		$ 70
Domestic Banks	DLS	From 1.95 to 2.35%	68	118	91	1,209	2	1,327
				118		1,279		$ 1,397

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

The undrawn balances of the committed lines of due to bank and other entities at December 31, 2019 and 2018 amount to 943 and 6,798, respectively.

(17) Sundry creditors and other accounts payable-

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

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

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

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

1/ As noted in note 23 d), the change in methodology for the constitution of legal risk reserves authorized by CAIR on September 10, 2019 had an effect of $100.

(18) Employee benefits-

a. Defined benefit pension plans

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

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

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

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

In 2019 and 2018, the investment of the funds covers the reserves for labor obligations, without surplus in the Defined Benefit Pension Fund.

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

Contributions to the Defined Benefit Pension Fund were for $514 and $575, respectively. $63 and $61 were contributed to the PEA fund in 2019 and 2018, respectively.

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

h. Defined contribution pension plan

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

This plan integrates the contributions that the Institution makes to the individual accounts opened in the name of each worker, which are divided into two sub-accounts called "A" and "B", respectively. It is also integrated with the voluntary contributions made by the worker to the "B" sub-account and by the returns generated by both sub-accounts, which are jointly identified as the individual account of the worker. The amount of contributions made amounts to 21 as of December 31, 2019 and 2018. At December 31, 2019 and 2018, the Defined Contribution Trust amounts to $ 215 and $ 243, respectively.

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

December 31, 2019

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

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Notas a los estados financieros consolidados

(Millones de pesos)

Situación Financiera

		Pensiones por jubilación	Primas de antigüedad	Otros beneficios post-empleo	PEA y costo financiero de créditos	Total
Obligación por beneficios definidos (OBD)		(9,341)	(20)	(7,252)	(3,519)	(20,132)
Valor razonable de los activos del plan		8,042	13	5,469	3,161	16,685
(Pasivo) activo neto por beneficios definidos PNBD/(ANBD)		**(1,299)**	**(7)**	**(1,783)**	**(358)**	**(3,447)**
Pérdidas actuariales acumuladas pendiente de reconocer en ORI (capital contable)		719	3	461	166	1,349
(Ganancias) / Pérdidas reconocidas en ORI (capital contable) pendientes de reciclar en resultados del año		580	4	1,325	192	2,101
Pérdidas actuariales acumuladas pendiente de reconocer en ORI y en el estado de resultados	**$**	**1,299**	**7**	**1,786**	**358**	**3,450**
Saldo de la reserva al inicio del año	$	-	-	(3)	-	(3)
Costo neto del periodo		239	3	272	63	577
Aportaciones al fondo		(239)	(3)	(272)	(63)	(577)
Saldo de la reserva al final del año		**-**	**-**	**(3)**	**-**	**(3)**

(Millions of Mexican pesos)

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

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

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

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

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

		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and interest cost of loans	Total
Remeasurement pending to be recognized in OCI						
Actuarial (earnings)/losses in obligations at the beginning of the year	$	647	1	205	139	992
Recycling		(111)	-	(36)	(24)	(171)
Actuarial (earnings)/losses in obligations at the end of the year		536	1	169	115	821
(Earnings)/losses in the return of plan assets at the beginning of the fiscal year		220	2	351	62	635
Recycling		(37)	-	(59)	(11)	(107)
(Earnings)/losses in the return of plan assets at the end of the fiscal year		183	2	292	51	528
Total remeasurements pending to be recognized in the OCI	$	719	3	461	166	1,349

		Retirement pensions	Seniority premiums	Other post-employment benefits	PEA and interest cost of loans	Total
Remeasurements recognized in OCI						
Actuarial (earnings)/losses in obligations at the beginning of the year	$	(693)	1	(76)	(396)	(1,164)
Recycling		41	-	(53)	28	16
Actuarial (earnings)/losses in obligations of the year		1,210	3	1,476	547	3,236
Actuarial (earnings)/losses in obligations at the end of the year		558	4	1,347	179	2,088
(Earnings)/losses in the return of plan assets at the beginning of the year		318	1	175	176	670
Recycling		(37)	-	(15)	(22)	(74)
(Earnings)/losses in the return of plan assets of the year		(259)	(1)	(182)	(141)	(583)
(Earnings)/losses in the return of plan assets at the end of the year		22	-	(22)	13	13
Remeasurements recognized in other comprehensive income		580	4	1,325	192	2,101
Total remeasurements						
Actuarial (earnings)/losses in obligations at the end of the year		1,094	5	1,516	294	2,909
(Earnings)/losses in the return of plan assets at the end of the year		205	2	270	64	541
Total remeasurements	$	**1,299**	**7**	**1,786**	**358**	**3,450**

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

(Millions of Mexican pesos)

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

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

<u>December 31, 2018</u>

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

Financial position

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

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

Financial position

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

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

(Millions of Mexican pesos)

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

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

The Institution has accumulated actuarial losses pending to be recognized as of December 31, 2018, in the OCI for $1,133 which will be recognized as from 2021, in compliance with the option exercised, of deferring such recognition according to the resolution that modifies the general regulations applicable to financial institutions, as published in the Federal Official Gazette on December 31, 2015.

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

c. Defined benefit pension plans

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

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

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

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

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

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

(Millions of Mexican pesos)

The Fund Assets of Defined Benefit Pensions are integrated by the years ended on December 31, 2019 and 2018 as follow:

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

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

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

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

Liquidity Risk: It can be seen that liquidity risk is controlled by virtue of representing 0.38% of the total financial instruments as of the end of December 2019 and 2018.

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

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

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

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

The PEA Fund Assets are integrated by the years ended on December 31, 2019 and 2018 as follow:

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

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

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

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

(Millions of Mexican pesos)

Liquidity Risk: It is controlled by virtue of representing 0.32% and 0.30% of the portfolio position at the end of December 2019 and 2018, respectively.

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

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

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

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

(19) Income Tax (IT) and employee statutory profit sharing (ESPS)-

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

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

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

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

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

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

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

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

(Millions of Mexican pesos)

The allowance valuation for deferred asset as of January 1, 2019 and 2018 was $343 and $340, respectively. The net change in the allowance for valuation for the years ended December 31, 2019 and 2018 was an increase of $274 and $3 respectively and are related to estimations for credit risks for which a recovery is not expected since they correspond to accredited with A-1 rating. In assessing the potential recovery of deferred assets, the Institution considers whether it is more likely that some portion or all of the deferred assets will not be recovered. The ultimate realization of deferred assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. By carrying out this evaluation, Management considers the expected reversal of deferred liabilities, projected future taxable profit, and tax planning strategies.

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

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

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

Legal and deferred ESPS

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

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

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

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

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

(20) Subordinated debt issue-

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

(Millions of Mexican pesos)

Following are the features of the subordinated debt outstanding:

2019

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

2018

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

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

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

(21) Stockholders' Equity-

a. The capital stock as of December 31, 2019 and 2018 was comprised as follows:

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

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

(Millions of Mexican pesos)

	Number of CAP		2018 Nominal value	Restatement effects	Total
Subscribed:					
Series A	178,755,098	$	17,875	627	18,502
Series B	92,085,960		9,209	323	9,532
Subtotal	270,841,058		27,084	950	28,034
Additional Paid - in Capital increases formalized by the Institution´s governing body			3,386	-	3,386
Share premium			71	10	81
Capital reserve			(547)	688	141
Prior years´ income			(102)	(1,161)	(1,263)
Result from valuation of available for sale securities			2	-	2
Remeasurement for obligations related to employees´ defined benefits			493	-	493
Result from holding non-monetary assets			-	(25)	(25)
Net income			42	5	47
Total	**270,841,058**	**$**	**30,429**	**467**	**30,896**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(22) Segment information-

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

a) Assets and liabilities-

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

Banco Nacional de Comercio Exterior, S. N. C.,
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(Millions of Mexican pesos)

b) Results by segment-

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

* As indicated in note 23 d), the Federal Executive, through the Ministry of Finance in the exercise of the powers conferred on it by article 10 of the Revenue Law of the Federation 2019, through Official Letter 368.-196/2019 dated December 30, 2019, instructed the payment of a use to the Institution of 6,074, charged to the Profit before taxes generated by the Institution, which was paid on December 30, 2019 to the Treasury of the Federation.

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

c) Loan portfolio and deposit funding-

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

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

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

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

(Millions of Mexican pesos)

a. Assets and liabilities

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

b. Results by segment

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

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

c. Loan portfolio and deposit funding

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

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

At December 31, 2018, the funding balance arising from the issue of promissory notes payable at maturity and debt securities in Mexican pesos comprised 60.1% of the internal debt, while loans made through commercial credit lines comprised 44.4% and securities outstanding abroad comprised 46.2%.

(23) Income Statement-

a) Financial margin

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

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

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

(Millions of Mexican pesos)

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

b) Commissions and Fees Income-

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

c) Intermediation result

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

d) Other operating expenses, net

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

1/ The change in methodology for the constitution of legal risk reserves authorized by CAIR on September 10, 2019 (Note 28), had an effect on the results of the Institution of $ 100, being applied prospectively as these are changes in accounting estimates, in accordance with Financial Reporting Standard B-1 Accounting changes and error correction.

2/ The Executive Government, acting under the authority conferred by Article 10 of the Federal Income Law in effect, through official letter number 368.-196/2019 through the SHCP on December 30, 2019 established the payment of use by the Institution of $6,074, which was applied to profit before taxes generated by the Institution, paying on December 30, 2019. On December 3, 2018, the Institution paid $3,386 for the same concept, with reference to the official letter 368.-075/2018 dated December 3, 2018.

(24) Guarantees granted-

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

(Millions of Mexican pesos)

Purpose		2019	2018
Guarantee or partially guarantee an issuance of stock certificates that amounted to $ 1,430, guaranteeing up to 33% of the outstanding balance of the amount of this issue, for a maximum period of five years with payments of principal on a monthly basis, in order to improve the rating assigned to stock certificates by the rating agencies.	$	256	346
Partially guarantee payment of capital of up to 33% of capital payment plus the first period of interest, of a program of stock certificates whose amount will total up to $2,500 at a maximum term of 10 years, in order to improve the rating assigned to stock certificates by the rating agencies.		940	940
Guarantees issued in Mexican pesos	**$**	**1,196**	**1,286**

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

(25) Contingent assets and liabilities-

Contingent liabilities include guarantees issued by the Institution to financial intermediaries; contingencies arising from commercial, labor, civil and administrative suits that according to Note 28 "Comprehensive risk management" are recorded depending on their status; and invoices subtracted from hedged financial factoring operations.

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

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

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

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

In 2019 and 2018, other recording accounts include: counter-guarantee funds of $3,302 and $3,893, and loans eliminated as per criterion B-6 Loan Portfolio, in litigation for $9,725 and $6,016, respectively.

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

(26) Goods in trust or under mandate-

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

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

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

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

(Millions of Mexican pesos)

		2019	2018
Defined benefit	$	13,524	12,339
Defined contribution		215	243
Special savings loan and financial cost of loans		3,161	2,022
	$	16,900	15,504

(27) Assets in custody or under administration-

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

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

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

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

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

(28) Comprehensive risk management (unaudited)-

a. General policies

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

Results of 2019 provide that the Institution reasonably complies with the current regulations and the best market practices.

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

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

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

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

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

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

(Millions of Mexican pesos, unless specified otherwise)
(Millions of Mexican pesos)

b. Policies for control of the credit portfolio concentration

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

According to Article 57 of the Regulations, the limits applicable to the Institution in the fourth quarter 2019 were determined considering the capitalization index of 13.68% and the basic capital of $31,491.6 for June 2019.

Article 54 of the Regulations provides a financing limit for private entities, based on the capitalization level and applying a predetermined factor on the Institution's core capital. With a capitalization index higher than 12% and lower than 15%, the factor applicable in the fourth quarter of 2019 was 30% of the Institution's core capital ($9,447.5, equivalent to DLS 500.8 million at the exchange rate of $18.8642 pesos per dollar on December 31, 2019).

As of December 31, 2019, financing granted to private entities, either individually or by economic group, is below the regulatory limit of 30% of the core capital and the responsibilities for the three major debtors, as a whole, amount to $11,813.3, representing 41.2% of the regulatory limit (equivalent to DLS 626.2 million at the exchange rate of $18.8642 on December 31, 2019)

Financing to the three major debtors as a whole:

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

Financing granted to entities and bodies of the public sector is below the regulatory limit of 100% of the core capital as of December 31, 2019.

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

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

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

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

c. Market risk

Investment securities. Regarding the referenced account of the consolidated financial statements, the market risk arises from interest rate movements. In case of foreign currency instruments, it additionally depends on the exchange rate variations. This risk is measured using the VaR methodology, based on the historical method, taking 251 data, a one-day risk horizon and 97.5% reliable level, which only implies 2.5% of likelihood that these investments experience a shortfall greater than the one estimated for such period. These parameters were authorized by the CCRM in the meeting held in October 2019.

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

As of December 31, 2019, the securities position of the money desk securities in national currency was in floating-rate governmental instruments. As of that date, these instruments' positions represented 1.43%, 0.03%, 0.18% and 94.51%, respectively; as the securities Date Value represented 2.68% and the repurchase position constituted 1.17% of the total; the VaR of such money desk was $5.1, a figure that represented 9.4% of the authorized limit of $54. The annual value at risk average was $5.9. The capital consumption of this portfolio was $659.7, which represented 76% of the authorized limit.

As of December 31, 2019, the national currency investment portfolio consists of held to maturity securities in governmental instruments, at real rate, and floating-rate governmental instruments. As of that date, the position in held to maturity instruments represented 1.6% and governmental instruments represented 98.4%. As of the end of December, a VaR of $1.4 was recorded for the total position, which represented 27.1% of the authorized limit of $5. The annual value at risk average was $1.3. The capital consumption of this portfolio was $48.9, which represented 62% of the authorized limit.

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

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

(Millions of Mexican pesos, unless specified otherwise)
(Millions of Mexican pesos)

From the derivatives authorized, the VaR of currency and interest rate forwards, options and interest rate and currency swaps is measured. This VaR is measured using the historical method, taking 251 data, a one-day risk horizon and 97.5% reliance level, which only implies 2.5% of likelihood that these investments experience a shortfall greater than the one estimated for such period. These parameters were authorized by the CCRM in the meeting held in October 2019.

Regarding the credit risk (counterparty), the forwards, options and swaps are operated with national and international high-quality financial institutions. The credit risk of forwards and options with customers is hedged by their lines of credit with the Institution, as well as control mechanisms that allow to monitor the positions to hold them within the authorized levels. As of December 31, 2019, the credit risk of derivative transactions is within the authorized limits.

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

As of December 31, 2019, as for business derivatives, there are closed positions of interest rate options for currencies and a swap portfolio. The VaR amounted to $0.8, equivalent to $39.5% of the authorized limit of $2; the annual VaR average of derivatives was $0.8. The capital consumption of this portfolio was $0.05, which represented 1.1% of the authorized limit.

As of December 31, 2019, the hedge position derivatives refer to interest rate and currency swaps, which are used as hedge mainly for a part of the credit portfolio, debt instruments, issuance of paper national currency and dollar deposits. The VaR of swaps amounted to $486.6, which is on a referential basis, as these transactions are not associated to a VaR limit, because they are hedge derivatives.

As of December 31, 2019, there was a "flat" position in currencies. With the position presented, the VaR amounted to $0.0, without the consumption of the authorized limit of 5, as the annual VaR average was $0.7. The capital consumption of this portfolio was $0.02, which represented 0.1% of the authorized limit.

Credit risk

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

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

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

As of December 31, 2019, the descriptive statistic of the private portfolio credit risk shows the following distribution by number of borrowers, regarding the average risk level.

Distribution of Private Sector Portfolio in December 2019

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

As of that date, the annual VaR (without considering the expected recovery from guarantees) of the private sector portfolio was $6,907.1, a figure that represents the extreme value of the loss and gains distribution due to the potential impairment of the portfolio with 99% reliance level and an annual period horizon.

Regarding the basic capital as of December 31, 2019, which is $30,754.8, the annual VaR represents 22.46%.

The allowance for expected loss due to the private sector portfolio impairment was $2,455.0, using the portfolio risk levels in accordance with the Institution's risk indicator methodology.

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

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

(Millions of Mexican pesos, unless specified otherwise)
(Millions of Mexican pesos)

Liquidity risk

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

According to the repricing and maturity structure of productive assets and liabilities of the current general balance sheet as of December 2019, in case of an adverse variation of 25 basis points in each of the risk factors making up the interest rate (rate base and overrate), the net income will reduce by USD 14.3 thousand on average per day (approximately 0.52% of the daily financing margin).

Non-discretionary quantifiable risks

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

With a view to identify quantifiable risks and determine their average exposure value by type of event and line of business, below are the results for the period from January 2008 to December 2019.

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

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

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

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

The average exposure value of cumulative events as of December 31, 2019 is $0.3.

Operational risk

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

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

Quantitative analysis – Losses arise from the accounts defined for the recording of events by operational risk. The operational risk reserve authorized in 2019 amounts to $10.7, i.e., the tolerance level for controlling event exposure by operational risk. As of the end of 2019, the accumulated consumption was $1.7, so the balance was $9.

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

Technological risk

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

Additionally, the Technological Risk is assessed by means of an indicator that considers the level of criticality of applications and the likelihood of incident occurrence. Also, the Business Continuity Plans (BCP) are implemented for processes deemed critical under the Management System for the Business Continuity Plan (MS-BCP). At December 31, 2019, the indicators show that, overall, the goals defined for each indicator were met.

Legal risk

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

The CCRM, in its meeting on September 10, 2019, approved the change of the Legal Risk Methodology (LRM) authorized until that date that started from the "Expectation of Losing", to the application of the Method of Legal Risk Management (MLRM), which allows to identify and classify the judgments based on the progress in the procedural stages and the resolution of the legal instances. As indicated in Note 23.- Additional information on results, the change in methodology represented an increase of $ 100 in provisions, to which it was applied prospectively as these are changes in accounting estimates, in accordance with Financial Reporting Standard B - 1 Accounting changes and error correction.

With the implementation of the method authorized by CCRM on September 10, 2019, the reserves created for legal risk as of December 2019 amounted to $878, comprised as follows: $765 for commercial lawsuits, $55 for administrative lawsuits, $26 for costs and expenses, $18 for labor trials; $13 for civil lawsuits and the caption of account of third parties for $1.

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

Non-quantifiable risks

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

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

(29) Recently issued financial reporting standards-

Amendments in the Commission provisions

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

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

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

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

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

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

(Millions of Mexican pesos)

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

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

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

FRS D-5, Leases- The accounting recognition for the lessor has no changes, only disclosure requirements are added. For the lessee, it eliminates the classification of the leases as operating or capitalizable, and must recognize an asset for the right to use the underlying leased asset and a lease liability that reflects the obligation of payments for leasing at present value, of leases greater than 12 months. Therefore, with this FRS: a) it is necessary to evaluate, at the beginning of the contract, whether the right to control the use of an identified asset is obtained for a certain period of time; b) the operating lease expense is replaced by an expense for depreciation or amortization of the right of use assets and an interest expense on the lease liabilities; c) the presentation in the statement of cash flows is modified by decreasing the cash outflows from operating activities, and increasing the cash flow outflows from financing activities to reflect the payments of lease liabilities; d) modifies the recognition of profit or loss when a lessee transfers an asset to another entity and leases that asset by way of return.

As of the issuance date of these consolidated financial statements, the Institution is still in the process of estimating the effects of these FRS on its financial information.

Improvement of 2020 FRS

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

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

Improvement of FRS not generating accounting changes- FRS B-1, Accounting changes and error correction; FRS B-8, Consolidated or combined financial statements; FRS B-11, Disposition of long-lived assets and discontinued operations; FRS C-2, Investment in financial instruments; FRS C-3, Accounts receivable; FRS D-2, Costs from contracts with customers; FRS D-5, Leases.

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

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

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

Eugenio Francisco Domingo Nájera Solórzano Chief Executive Officer	José Alberto Gómez Sandoval Deputy General Director of Administration and Finance
Julia Noemí Rodríguez Kú Director of Accounting and Budget	Víctor Manuel Jiménez García Director of Internal Audit

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