

ANNUAL REPORT 2013

# NACIONAL FINANCIERA S.N.C.



**nacional financiera**  
Banca de Desarrollo



# Board of Directors and Commissioners, as of December 31, 2013

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## Board Members, Series "A"

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### BOARD MEMBERS

#### **LUIS VIDEGARAY CASO**

Secretary of Finance and Public Credit  
and Chairman of the Board

#### **DR. FERNANDO APORTELA RODRÍGUEZ**

Deputy Secretary of Finance and Public Credit

#### **ILDEFONSO GUAJARDO VILLARREAL**

Secretary of Economy

#### **PEDRO JOAQUÍN COLDWELL**

Secretary of Energy

#### **AGUSTÍN GUILLERMO CARSTENS CARSTENS**

Governor of Banco de México

### ALTERNATES

#### **LUIS MADRAZO LAJOUS**

Head of Development Banking Unit  
Secretariat of Finance and Public Credit

#### **ALEJANDRO DÍAZ DE LEÓN CARRILLO**

Head of Public Credit Unit  
Secretariat of Finance and Public Credit

#### **ENRIQUE EDGARDO JACOB ROCHA**

President of Entrepreneur National Institute  
Secretary of Economy

#### **MA. DE LOURDES MELGAR PALACIOS**

Deputy Secretary of Electricity  
Secretary of Energy

#### **JESÚS ALAN ELIZONDO FLORES**

General Director of Financial System Analysis  
Banco de México

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### Board Members, Series “B”

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#### BOARD MEMBERS

**GERARDO GUTIÉRREZ CANDIANI**

President of Consejo Coordinador  
Empresarial (CCE)

**FRANCISCO JAVIER FUNTANET MANGE**

President of Confederación de Cámaras  
Industriales de los Estados Unidos  
Mexicanos (CONCAMIN)

**JORGE ENRIQUE DÁVILA FLORES**

President of Confederación de Cámaras  
Nacionales de Comercio, Servicio  
y Turismo (CONCANACO-SERVYTUR)

#### ALTERNATES

**LUIS FERNANDO ZÁRATE ROCHA**

National President of Cámara Mexicana  
de la Industria de la Construcción (CMIC)

**RODRIGO ALPÍZAR VALLEJO**

President of Cámara Nacional de la Industria  
de Transformación (CANACINTRA)

**JUAN PABLO CASTAÑÓN CASTAÑÓN**

President of Confederación Patronal  
de la República Mexicana (COPARMEX)

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### Independent Board Members, Serie “B”

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BOTH ARE BOARD MEMBERS — NO ALTERNATES IN THIS CATEGORY

**CARLOS JOSÉ GARCÍA MORENO ELIZONDO**

Financial Director of América Móvil, S.A.B. de C.V.

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## Commissioners

### SERIE "A"

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BOARD MEMBERS

ALTERNATES

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**EDUARDO GURZA CUIEL**

Public Commissioner  
Secretariat of Public Service

**ARNULFO RUIZ FONSECA**

Deputy Public Commissioner  
Secretariat of Public Service

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### SERIE "B"

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**CARLOS AGUILAR VILLALOBOS**

General Director of Despacho Aguilar Villalobos  
y Asociados, Consultoría y Auditoría, S.C.

**IGNACIO NÚÑEZ ANTA**

Auditor and Manager of Grupo Financiero  
Anáhuac

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## Technical Secretariat for Board of Directors

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**LÁZARO JIMÉNEZ GARCÍA**

Secretary of the Board of Directors

**PERLA LILIANA DE LA PEÑA AMANTE**

Deputy Secretary of the Board of Directors

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# Officers attending sessions of the Board of Directors, as of December 31, 2013

**DR. JACQUES ROGOZINSKI SHTULMAN**

Chief Executive Officer

**LIC. REBECA ESTHER PIZANO NAVARRO**

Vice President of Development Financing

**MTRO. RAÚL SOLIS WOLFOWITZ**

Vice President of Corporate Banking

**LIC. JUAN PABLO NEWMAN AGUILAR**

Vice President of Treasury and Markets

**ING. PEDRO A. ARGÜELLES RODRÍGUEZ MONCADA**

Vice Presidente of Credit

**LIC. JOSÉ ELÍAS SAHAB JAIK**

Vice President of Regional Promotion and Institutional Relations

**LIC. LUIS DANTÓN MARTÍNEZ CORRES**

Vice President of Legal and Fiduciary Operations

**LIC. JORGE M. ESPINOSA DE LOS REYES DÁVILA**

Vice President of Administration and Finance

**LIC. ARLETTE RUÍZ MENDOZA**

Director of Internal Control Entity

**DR. FEDERICO BALLÍ GONZÁLEZ**

CEO's Technical Coordinator

**LIC. LÁZARO JIMÉNEZ GARCÍA**

Secretary of the Board of Directors

**LIC. PERLA LILIANA DE LA PEÑA AMANTE**

Deputy Secretary of the Board of Directors



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# Message from Chief Executive Officer

In 2013 Nacional Financiera's credit balance grew by 14%, contributing decisively to an upward trend in the work carried out by development banks in Mexico during the first year of Mexican President Enrique Peña Nieto's administration.

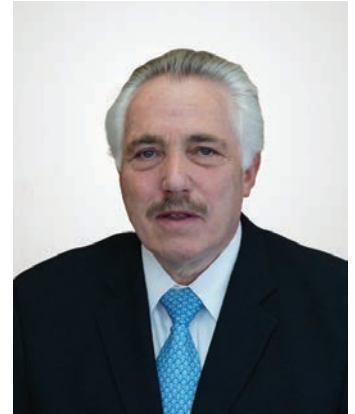
The amount of Nafinsa's credit portfolio corresponding to the private sector increased from 212,931 million pesos at the end of 2012 to over 240,000 million pesos at the end of December 2013.

This growth in the credit balance was achieved through the provision of nearly 700,000 million pesos during the year, including direct and induced credit, factoring through productive chains, guarantees and guaranteed credit.

A total of 220,000 companies and nearly a million and a half micro-businesses or individuals with business activities around the country were assisted with financing.

I would like to highlight some important innovations during this year:

- Through Nafinsa's Development Financing area, differentiated guarantee auctions were held, enabling the Institution's resources for backing loans to SMEs to permit the inclusion of new clients in the financial system and a reduction in rates for recurring clients who have already used Nafinsa guarantees. Not only did Nafinsa incorporate new companies, but the rates for bank loans with Nafinsa's backing decreased by an average of 20% as a result of the auctions.
- With the aim of providing incentives for small and medium-sized companies to participate in the purchasing process of goods and services by the Federal Government and large corporations, this year Nafinsa expanded its coverage of deposit guarantees requested to assure compliance with supply contracts.
- Our efforts are not limited to granting loans. Rather, we are working to promote new training and technical assistance schemes, with emphasis on disseminating the merits of corporate governance in small and medium-sized companies.
- During the first year of the current administration, Nafinsa promoted courses and workshops providing technical assistance oriented toward corporate governance, and the response has been very positive.



Exchange rate US Dollar (USD) to Mexican Peso was on 2012: \$12.9658 and on 2013: \$13.043

- We have registered 17,481 online courses on diverse topics within the area of business training, with an average rate of 2.1 programs per user.
- In the Financial Markets area, for the first time this year, through a mechanism for syndicated auctions, we offered Securities Certificates for placing debt programmed by Nafinsa at variable and fixed rates, of three and 10.6-year terms, with great success and improved conditions in terms of liquidity and control by issuers. This scheme democratizes the participation by intermediaries that place this type of instrument.
- Nacional Financiera made some important innovations in 2013 through its Corporate Banking area, beyond its task of extensive financing. It developed a scheme of incentives for Mexico's medium and large companies, allowing them, with assistance from first-tier loans for fixed assets and working capital, to carry out a process of institutionalization for achieving the standards required by the Mexican Stock Exchange and to eventually issue debt on the market. This innovation, our *Programa Mercado Institucional de Deuda Alternativa Societaria (MIDAS)*, brings together for the first time Nafinsa's credit backing with the implementation of modernization and business expansion plans, to assist already-consolidated companies in placing securities on the stock exchange market.
- It is estimated that a portfolio of 4,000 million pesos is being established in this initial stage, to benefit around 25 to 35 companies that may subsequently access the institutional debt market in the medium term.
- Also, Nafinsa became consolidated as a leader in the syndication of the operation of 3,000 million dollars to finance the Ethylene XXI project, the first major project in the national petrochemical industry in the last 20 years. In addition, Nafinsa is co-financing, with the International Finance Corporation (IFC), a project in Baja California Sur State to produce electricity through photovoltaic solar energy. Nafinsa provided 630 million pesos.

- One of the strategies applied to Regional Promotion during this first year, was to re-launch the Institution's Advisory Councils, formed by businesspeople from each country's states. There are over 500 council members throughout the country, who form a unique federal government's network of its type.
- After three years, the Councils had encountered at the regional level, in a meeting of 32 Council Chairpersons in Mexico City, and five regional meetings: Central Region in Ixtapa; the Northwest Region in Ensenada; the Northeast Region in Monterrey; the Southeast Region in Merida; and lastly, the Western Region in Vallarta.
- The regional promotion strategy is to strength Nafinsa's state-level offices, and thus in 2014 —the year in which the Institution is celebrating 80 years since its founding— offices will once again be installed in eleven states (where services will be provided from a centralized regional office) and new representatives will be designated in the states where they are lacking (Tlaxcala, Nayarit, Campeche and Aguascalientes).

The financial reforms approved by the National Congress will bring new opportunities in many aspects and also new challenges for development banking in Mexico. Nacional Financiera will once again play a fundamental role in the tasks to be fulfilled, and with a clear challenge: to grant or induce more but less expensive financing, accompanied by other strategies to assist businesses with Nafinsa's support.

**Dr. Jacques Rogozinski S.**  
*Chief Executive Officer*



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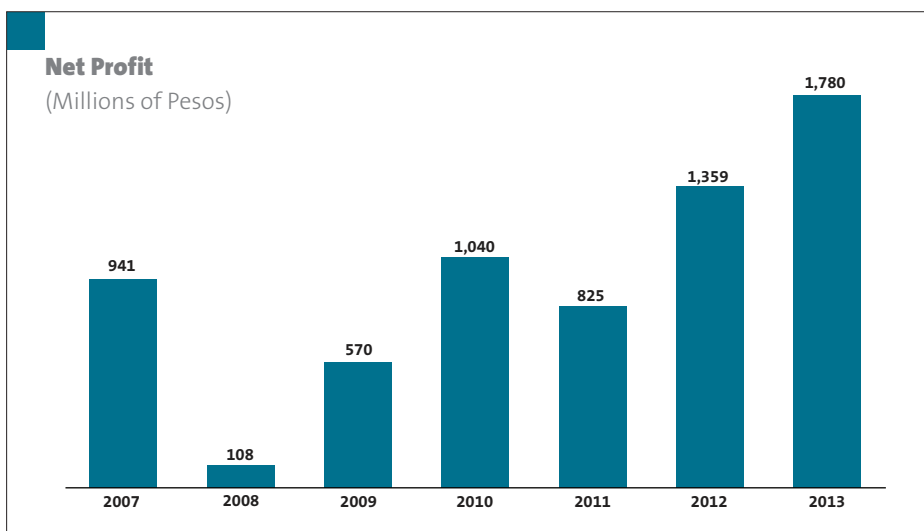
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# Economic Environment

During 2013 the Mexican economy registered a GDP growth rate of 1.1%, below original estimates of approximately 3%. The latter was based on expectations for the new Enrique Peña Nieto administration, which in a context of political agreements, represented by the Pact for Mexico, urged the passing of structural reforms particularly in the energy, education, telecommunications and finance sectors.

However, during the early months of the year, aggregate figures on economic activity were reported, and pointed to a strong deceleration in the economy—in fact the worst deceleration recorded since 2009. Although the figures were affected by the time of year (Holy Week), a decline in dynamism was observed in various areas of economic activity, particularly in the construction industry. In addition the pace at which the Federal Budget was used had a negative impact on investment spending.

During the second and third quarters of the year, economic indicators continued to show signs of weak economic growth. This was partly due to less dynamism in the external demand, but also due to some internal aspects, such as the already-mentioned pace of public fund use, and the impact from reduced activity in the construction sector, affected by the situation for housing developers in Mexico. During 2013, activity in the construction sector dropped by 4.5%.



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The aggregate demand was also affected by low household consumption levels during 2013. Overall, private consumption grew by only 2.4% in comparison to the previous year. This was also reflected in a lower Consumer Confidence Index, which experienced a decline of 9.4% for the year.

In addition, the year started out with a declining trend in the inflation rate. This tendency had begun in November 2012, and by February 2013 the inflation rate was 3.46%, the lowest since December 2011. Given this factor, together with other economic performance indicators, as well as Mexico's monetary policy position with respect to other countries, the Banco de México (Banxico) decided in March 2013 to reduce the targeted weighted rate of daily bank funding by 50 base points, lowering it to 4.0%. This was the first time it had been reduced since July 2009. Banxico took another surprise action in September 2013, when it decreased the target interest rate by 25 base points and by another 25 base points in the following month of October, lowering it to 3.5%. This decision was based on anchored inflation expectations, the convergence with Banco de México's target, and a clear deceleration of the economy.

Toward the end of 2013, economic activity stabilized. Coincident and leading indicators began to show signs of improvement (registering 100 and 98 points, respectively), as a result of regularized public spending together with a better situation in the global economy, which began to show signs of economic recovery.

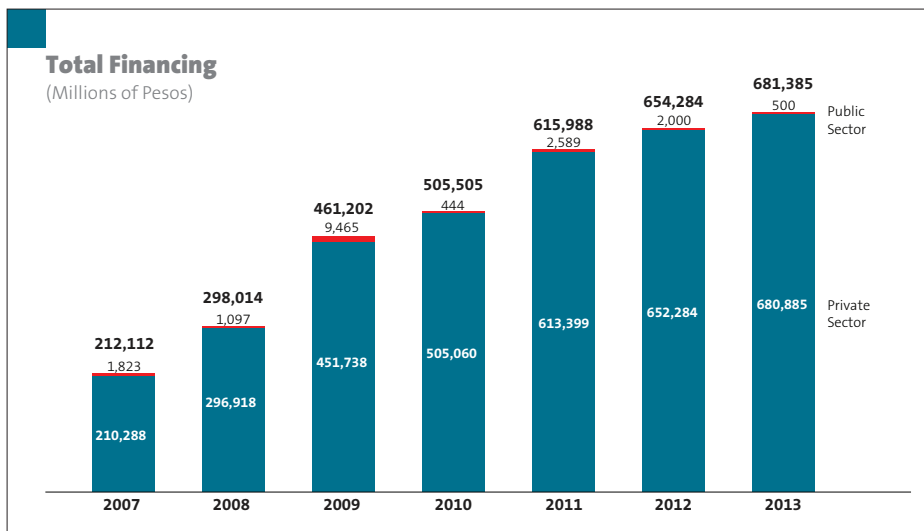
In particular economic recovery which was better than expected in the United States was a pleasant surprise. During the third quarter of 2013, the US economy began to show signs of improvement, registering a 4.1% growth rate, followed by a 2.6% growth rate in the fourth quarter. This denoted a positive change in Mexico's prospects for growth, given the strong correlation between the two economies.

“Toward the end of 2013, economic activity stabilized. Coincident and leading indicators began to show signs of improvement, as a result of regularized public spending together with a better situation in the global economy”

# Financing

## Total Financing Program

In 2013 Nacional Financiera channeled a total of 681,385 million pesos through its various programs. This amount is 4% above that registered for the previous year.



## Credit and Guarantees to Private Sector Program

With the variety of products offered by Nafinsa through its second-tier, Guarantees Scheme and Guaranteed Credit programs, the Institution channeled 680,885 million pesos to the private sector. Of this total, 230,910 million pesos corresponded to credit granted through Productive Chains; 26,709 million pesos through Fixed Assets Financing; 20,743 million pesos through Micro-business Financing; 36,897 million pesos through Traditional Programs; and 375,575 million pesos through Guarantees and Guaranteed Credit.



### **Productive Chains Program**

Of the 230,910 million pesos financed through Productive Chain Schemes, 94,040 million pesos represents 41% of the total which correspond to resources granted to suppliers of public offices and entities, through the Federal Government Purchases Program, created specifically to support small and medium-sized establishments (SMEs).

Within this program, Federal Government offices and entities registered accounts payable to December 2013, in the amount of 395,147 million pesos, of which 24% was received in advance, thus assisting 6,548 suppliers that made use of advance receipt through financial factoring.

### **Micro-finance Program**

According with information presented in the publication entitled “Benchmarking de las microfinanzas en México 2012-2013” and prepared by ProDesarrollo, the following is especially noteworthy:

- Microfinance development in Mexico has experienced a major boom. It is considered to be a relatively new sector, with an average history of eight years.
- Various organizations in Mexico have focused on promoting financial inclusion, as a mechanism for granting seed capital to initiate a productive activity. This has significantly increased the percentage of the population that has access to formal financial services.
- Microfinance institutions provided services to their clients through 2,722 branches, with the following rates of coverage: 51% in the Central region, 32% in the Southern region, and 17% in the Northern region.
- With regard to type of loans, 30% corresponds to individual loans, and 70% to a group scheme or community bank, or in other words, through solidarity loans.
- It is estimated that women represent between 93% and 95% of group clients in the market served by microfinance institutions, but in the case of individual loans, the percentage is lower, at 62%.

Currently, the definition of microfinance includes many types of loans granted to low-income sectors, particularly to micro-business people (personal loans, housing loans and insurance).

By the end of 2013, a total of 20,743 million pesos had been granted through the Microfinance Program, thereby assisting 1,567,439 persons. The total amount of the microcredit portfolio thus increased to 16,087 million pesos.

### **Strengthening Distribution Channels**

As of December 2013, the portfolio balance for non-banking financial intermediaries had risen to 16,521 million pesos.

There were seven financial intermediaries operating in the *con\_prend@* program, with credit lines of 740 million pesos and a balance of 376 million pesos; two pure leasing companies participated with credit lines of 1,580 million pesos, with a portfolio balance of 1,577 million pesos in December 2013. Also, there were 17 financial intermediaries operating in *Líne@* *Inmediata* Nafinsa, with credit lines of 22,160 million pesos and a balance of 13,411 million pesos.

The remaining financial intermediaries (11) were operating in the *Líneas Básicas*, *Descuento Fácil* and *Descuento en Papel* programs, with credit lines of 1,490 million pesos and a balance of 1,157 million pesos.

At the end of 2013 there were 31 intermediaries with a guarantees balance of 8,966 million pesos, derived from various processes for selecting SME products: Education, Software, Automotive, Freight and Passenger Transportation and Surety Companies. A total of 110 requests had been received from recently-created financial intermediaries interested in becoming part of the Nafinsa network. A pre-analysis process was carried out for 50 of those financial intermediaries, and two of them were incorporated with an amount of 330 million pesos, plus dossiers were being prepared for six prospective candidates, in preparation for their incorporation, at approximately 920 million pesos.

“It is estimated that women represent between 93 and 95% of group clients in the market served by microfinance institutions”



## Sector-based programs

Nafinsa's sector-based programs, in line with the objectives and premises of the 2013-2018 National Development Plan, are aimed at providing assistance to micro, small and medium establishments (MSMEs) in specific productive sectors that have limited access to financing through traditional schemes. The objective is to promote the growth and competitiveness of these establishments, while favoring job creation.

Results from Nafinsa's sector-based programs during 2013 were the following:

- **Program for Replacing Household Appliances for Energy Savings.** Through the Trust Fund for Energy Savings (*Fideicomiso para el Ahorro de Energía Eléctrica*—FIDE), it was possible to replace over 1,681,831 inefficient appliances (refrigerators and air conditioners) with new energy-saving models. These actions generated an operated amount of over 6,363 million pesos, with all the appliances billed at the household rate. Currently, the Program is being redesigned in preparation for launching a second stage that will focus on replacing refrigerators.
- **Assistance Program for Reactivating the Automotive Industry.** Given the situation resulting from the low volume of new auto sales in the national market, Nafinsa implemented a program to support the industry's economic reactivation through two channels: by operating a financing scheme for auto dealerships (Plan Piso) and by facilitating auto loans for persons purchasing new autos. A total of 29 credit lines which represent 556 million pesos were granted through the Plan Piso, and 33,389 loans were granted to new auto purchasers in 2013, which total amount was of 5,119 million pesos.
- **Taxi Renewal Program.** Through this program, 245 loans for a total of 21 million pesos were granted in 2013 for the purchase of new vehicles to be used as taxis in Mexico City and the state of Puebla.
- **Program for Financing Higher Education.** During 2013, 1,393 loans were granted, for a total of 302 million pesos, for the benefit of 30 universities around the country.
- **Assistance Program for Natural Disasters and Economic Reactivation.** During 2013 the following programs were implemented: "Emergente

Coahuila por llluvias severas” in response to heavy rainfall in the state of Coahuila, and “Emergente Ingrid y Manuel” in response to Hurricane Ingrid and Tropical Storm Manuel in the states of Guerrero, Sinaloa, Colima, Tamaulipas, Zacatecas, Chihuahua and San Luis Potosí. These two programs assisted 94 companies with a total of 87 million pesos. In the case of Oaxaca, an economic reactivation scheme was implemented for companies affected by teacher protests in 2013, assisting 517 companies with a total of 444 million pesos.

In the framework of the Crusade Against Hunger and the National Program for the Social Prevention of Violence and Crime, coordinated by the Secretariats of Social Development and the Interior, respectively, a financing scheme was implemented for MSMEs located in the municipalities targeted in these programs, with the aim of providing an incentive for granting financing and conserving jobs in the regions. In 2013, 738 loans were granted, for a total of 643 million pesos.

- **Program for Financing Comprehensive Modernization of Micro-Companies.** In 2013 a total of 2,433 micro-companies previously receiving training from the Secretariat of Economy had access to loans for a total of 273 million pesos.
- **Program for Supporting Women Owning Micro-Companies.** This program was implemented with the aim of assisting women who own micro-companies, to promote their active role in generating income for their households and in their communities. During 2013, 237,438 micro-loans were granted for a total of 1,283 million pesos.
- **Program for Financing the Tax Regime for Small Taxpayers (*Régimen de Pequeños Contribuyentes—Repecos*).** During 2013, assistance was provided to over 3,000 small taxpayers, with access to over 400 million pesos in credit. It is important to mention that this program was discontinued on December 31, 2013.

In addition assistance was provided to other productive sectors that face competitive disadvantages and whose development is essential for maintaining and creating jobs. These sectors include the software and leather-footwear industries, and the modernization of urban transportation in Mexico City.



**237,438**

**MICRO-LOANS** were granted for a total of 1,283 million pesos through the Program for Supporting Women Owning Micro-Companies



**3,039**

**COMPANIES** were attended through the “Center for Comprehensive Itinerant Services to Affected Businesses”

## Alternative Channels

Alternative Channels made it possible to expand credit and grant financing to a larger number of companies during 2013. They also contributed to decreasing operational costs within the Institution by using centralized schemes to provide services to companies and achieve greater efficiency in the Institution’s organizational structure.

### Loan Electronic Factory (Fábrica Electrónica de Crédito)

#### *Sector-based Programs (Implementation)*

Development and Implementation of promotion and sales strategies, through a national network of internal and external promoters, for the various financing programs (Second-Tier, Sector-based and Emergency Programs), with the aim of fulfilling the annual goals of establishing institutional and promotional programs, such as tourism, child care centers and government purchases, with the following results obtained:

- In the Contract Financing scheme, the total for 2013 was 1,312 million pesos.
- In the Program for Financing the Construction Industry, 3,300 million pesos were granted, surpassing the established goal by 31%.
- 1,393 loans were granted through the Program for University Financing.
- A new alternative channel, referred to as a “Center for Comprehensive Itinerant Services to Affected Businesses” was part of the Emergency Program developed in response to Hurricane Ingrid and Tropical Storm Manuel. Mobile units were used to bring services to the MSMEs affected in various Mexican states, and to facilitate the processing of loans for reactivating commercial and industrial activity. Services were provided to 3,039 companies through this channel.

### *Promotion of Factoring*

Developing and implementing strategies for promotion and affiliation with the Program for Factoring in Productive Chains, using the national network of internal and external promoters and various means for providing assistance (membership and affiliation campaigns, through a Call Center and mass mailings by email, and major events for membership and installation of modules in First-Order Companies, for example), with the following results obtained in 2013:

- The supplier affiliation with publication was met by 95%, thereby guaranteeing that suppliers were operating in the Productive Chains Program.
- 11,115 suppliers affiliated with the Productive Chains Program, which represent 5% beyond the expected amount.
- Model for increasing indexes of amounts financed and numbers of suppliers with financing was maintained, as a result of promotion campaigns implemented through the Call Center.
- Levels of services were maintained for document-based review of files to suppliers affiliated with the Productive Chains Program.
- Concept and strategy developed for extensive services to the MSME market, referred to as “Nafinsa’s Electronic Market” or Marketplace, making it possible to link the supply and demand of equipment products and to strengthen the domestic market through electronic devices. It is anticipated that the program will be implemented in its totality during the first quarter of 2014.



### *Administration of Electronic Products and Desks*

Administering and coordinating the processes associated with the operational implementation of the Productive Chains Program, Financing to Distributors, Special Programs and Electronic Credit, through negotiation and evaluation of the levels of services with financial intermediaries, providing real, timely information regarding the status of MSME cases. The results obtained were the following:



- Supervision, monitoring and registry of over 10,000 daily operations (Chains and Credit at Fixed Rates, Variables, Emergency and Micro-finance), with amounts of over 800 million pesos a day.
- Service and support to 550 First-Order Companies participating in the Productive Chains Program.
- Services and support to 45 financial intermediaries for credit operations and consults (Banking Financial Intermediaries, Non-Banking Financial Intermediaries, FISOS) regarding Nafinsa's Electronic System and the operations conducted in the system.
- Administration of approximately 150 internal users, 2,500 users of financial intermediaries and 8,000 users of First-Order Companies.
- Dispersal of Funds to SMEs, with a weekly average of 250 million pesos, by First-Order Companies.
- Processing over 1,500 cases per month of companies requesting affiliation to Productive Chains Program.
- Storage and control of 105,000 paper and digital files.

#### *Services to Clients and Business Development Training*

These services were offered through plans and processes designed oriented to provided services to users/clients throughout the country, and through networking with internal areas and negotiation with multiple public and private entities, by the Business Training Center. It included 25 business solutions and 10 online services, this make use of the resources, schemes for contracting and budget monitoring from the Fund for Technical Assistance in SME Financing Programs 80444, to achieve programs for promoting credit, factoring products and services at the national level, making possible to obtain the following results:

- Using the ticket modality through the Call Center, the affiliation of suppliers is completed in an average of six days.

- By the end of 2013, over 136,000 users had participated in online business training or had attended events, surpassing the established goal by 36%.
- Call Center responded to 225,000 calls from clients and users, associated with all the Institution's products.
- International best practices specify levels of abandoned calls at approximately 3%, but Nafinsa maintained its rate of abandoned calls at 1.42%.
- Over 90,000 SMS-type messages sent to users of Nafinsa's services.

# 12,963

**COMPANIES** were benefited by AI Invest instruments, surpassing the anticipated level by 18%

*Promotion of Businesses between Mexico and Europe through Eurocentro Nafinsa*

Eurocentro Nafinsa México is a trust fund created by Nacional Financiera in coordination with the European Commission for operating the AL – Invest IV Program. The aim is to offer specialized services, providing advice and promoting contact among SMEs from Mexico, Central America and Europe.

- During 2013, 12,963 companies were benefited by AI Invest instruments, surpassing the anticipated level by 18%.
- Potential businesses were generated at a level of 84.6 million euros.





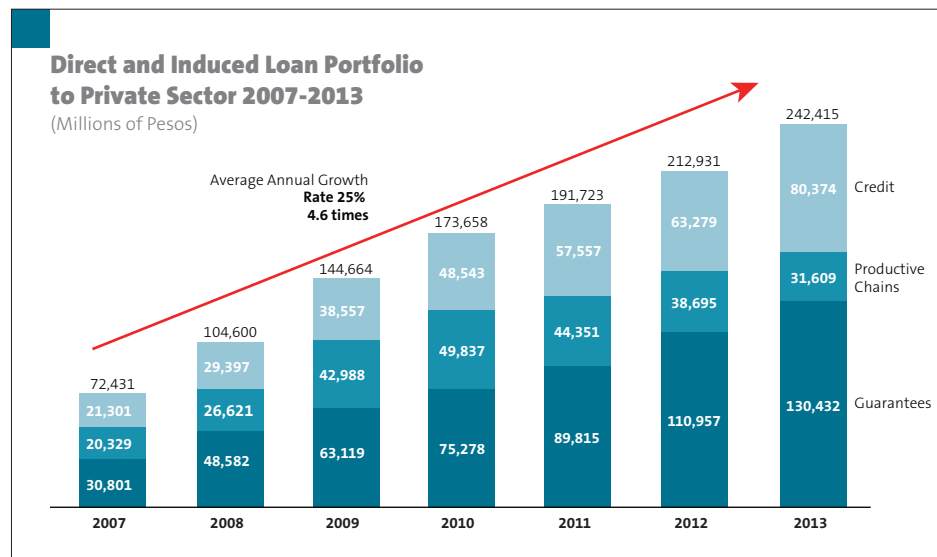
## Guarantees Program

Nafinsa provides incentives for granting financing to SMEs through its Guarantees Program, by participating in the risk involved in financing granted by financial intermediaries.

During the period from January to December 2013, a total of 375,575 million pesos was channeled (including guarantees financing and guaranteed credit), which represented a 9.5% increase over the amount granted during the same period in 2012.

During 2013, 160,201 companies were assisted through this program, with a guaranteed balance of 46,282 million pesos registered at the end of the year, reflecting the Program's growth in recent years.

## Total Financing to Private Sector



The total loan portfolio corresponding to the private sector, including guaranteed credit, increased by 12% with respect to the previous year, reaching a level of 242,415 million pesos by December 2013. On this amount, the Guarantees Program contributed 54%, the Traditional Financing Programs contributed 33%, and the Productive Chains Program, the remaining 13%.

“The total loan portfolio corresponding to the private sector, including guaranteed credit, increased by 12% with respect to the previous year”

In accordance with the mission of assisting the country’s smallest companies, 79% of all financing to the private sector was concentrated on micro, small and medium-sized establishments (MSMEs).

### **Regional Promotion Network**

During 2013 a number of analyses were conducted with regard to the role that should be played by the Regional Promotion Network in relation to the new national development policy. Based on these analyses, the following three premises were defined:

1. The country’s economic development policy, described in the National Development Plan, establishes the key guidelines for orienting the efforts of the major public institutions.
2. As one of the country’s institutions, Nafinsa should direct its efforts toward the economic policy established in the National Development Plan, through institutional products and services developed for this purpose.
3. The way in which Nafinsa fulfills its mandate is by offering its products and services through a sales structure referred to as the Promotion Network, which distributes and places them on the market. In this context, a fundamental activity is to identify the needs of the diverse clients located throughout the country’s states.

With regard to the National Development Plan, the goal that is directly associated with promotion activities is “A Prosperous Mexico,” which specifies the following in relation to access to financing:





“Regional Promotion Network contributed to develop a more important role for Nafinsa as institutional relations with business entities and state governments”

*...Development Banks must transform themselves to become a genuine lever for growth...*

*... The objective of Development Banks must be to expand credit, with special emphasis on priority areas for national development such as infrastructure, in addition to small and medium-sized companies...*

*...Development Banks must contribute in an effective and efficient manner to the country’s productive activity...*

*... In any case, efforts must be directed at productive companies that do not obtain financing from private banks, to enable them to achieve a greater scale of operation and to adopt new, more efficient technologies.*

And related to financing and sector-based and region-based policies, the following is specified:

*... It is absolutely vital that the National Government promote the sectors with high potential for job growth and creation, as observed in the world’s most competitive economies.*

*Today, Mexico needs a modern policy for financing in strategic sectors.*

Along these lines, the Network focused its efforts on seeking out businesses with a potential for impacting regional development. It coordinated these efforts with other departments in order to increase the number of potential clients. It contributed to develop a more important role for Nafinsa as institutional relations with business entities and state governments. And it re-launched Advisory Councils with the aim of making them more proactive in providing feedback on products and services.

It also established the minimum requirements for a product kit, and initiated a diagnostic assessment and analysis of the information sent by other departments as a product kit. It determined that this information was not uniform throughout the Institution, it did not contain the minimum requirements for sales, and levels of services were not formally designated. Consequently, these kits were complemented to facilitate the sale in a more comprehensive, focused and effective way to the Network, and all information was made uniform.

### *Promotion of Nafinsa products*

Align with the previous statement, the Network of State Representatives focused on the promotion and sales of all the Institution's products during 2013, with special emphasis on the following:

- **Sector-Based Programs.** At the regional and state levels, with the primary aim of implementing schemes that assist priority sectors or departments in state or municipal governments, to generate the greatest impact possible in MSMEs, and on local income and employment.

During 2013, the Regional Promotion Network promoted and generated 10 requests for new sector-based programs, with contributions from the states, fulfilling 200% of its satisfactory goal of five sector-based projects.

- **Projects promoted and implemented in collaboration with Nafinsa's business areas (Corporate Banking, Financing, Legal and Fiduciary, and Financial).** Referral and implementation of products by the Network.

Different types of products are included in this indicator, primarily: Venture Capital, First Tier, Sustainable Projects, Money Desk Accounts, Trust Funds (including Triple A), Selective Guarantees and Development of Non-Banking Financial Intermediaries. In 2013, 102 projects were promoted through the five regional offices. These projects were quantified in the goal for 2013, and represented 159% of the annual goal.

- **Productive Chains.** Sales, installation and operation of public, private and federal productive chains, with the aim of channeling larger amounts of resources to SMEs in the country's states.

As of December 31, 2013, the Network of State Representatives completed the installation of 54 chains in 18 Mexican states, as a result of knowledge of local markets, the maturity of this product, and local companies' knowledge and use of this product. The installation of new productive chains, by region, was as follows: 13 in the Central Region; 23 in the Northeast Region, two in the Northwest Region, eight in the Western Region, and eight in the Southern Region. A total



“The Network of State Representatives completed the installation of 54 chains in 18 Mexican states”



“The Network of Regional Representatives promoted and initiated 68 agreements, providing assistance until their formalization, which represented 106% of its satisfactory goal for the entire year”

of 1,696 million pesos in credit lines was achieved for the 54 pilot Productive Chains.

- **Training Programs in the States.** Aimed to complement the Institution’s other financial assistance programs and expanding the financial culture of local businesspeople.

The Network of Regional Representatives promoted and initiated 68 agreements, providing assistance until their formalization in 2014, which represented 106% of its satisfactory goal for the entire year.

Following is a list of the activities carried out by state representatives to promote Nafinsa’s participation in business entities at the state level, and to detect needs, when applicable, that were then referred to other training entities in the states.

- State representative visited the entity and detected areas of training opportunities, recording the first visit conducted as the promotion date.
- Conducted a diagnostic assessment (report), establishing the needs for training, together with its rationale and benefits.
- Filed report and made referral to the Business Development department by email, attaching the entity’s contact information and the report.
- Business Development department issued a response, indicating acceptance or rejection.
- Business Development department sent an email to the entity and the state representative to communicate the main office’s proposal for a training agreement.
- State representative provided guidance and follow-up to the entity, for filling out the Agreement and sending it to the Business Development department.
- Business Development department reviewed the proposal and sent it to the entity, and the later provided a response, accepting or rejecting the proposal.

“Events organized by the Promotion Network do not imply any costs for Nafinsa, since agreements are made with chambers of commerce and state governments”

- Acceptance or rejection by the entity.
  - Entity promoted and sent out invitations for attending the course.
  - Course was conducted.
- **Promotional Events.** Organization of events in the states around the country, with the aim of promoting the Institution’s loan products, and also publicizing Nafinsa’s results.

One of the fundamental tasks of the Network of State Representatives is to organize promotional events, since this contributes to gain clients for the Institution’s programs, to bring attention to new products and services, and to publicizes Nafinsa’s activities and results in each of the country’s states. To carry out this work, state representatives maintain ongoing contact with chambers of commerce, universities, companies and local governments.

Events organized by the Promotion Network do not imply any costs for Nafinsa, since agreements are made with chambers of commerce and state governments, most of which provide installations for publicizing the information that Nafinsa offers to their members and professionals.

During 2013 the Network held 392 promotional events, thus fulfilling 123% of its satisfactory goal of 320 events during the year. Attendance at the various events came to a total of 26,884 persons.

*Cooperative agreements with chambers of commerce, state governments, educational entities and others*

There was a favorable increase in the number of cooperative agreements, through which Nacional Financiera creates alliances and actions in benefit of the companies affiliated with the chamber of commerce with which agreements are signed.



**392**

**PROMOTIONAL EVENTS**

were held by the Network fulfilling 123% of its satisfactory goal

“A closer working relationship is developed with chambers of commerce, and this assists state representatives in detecting the needs of each sector”



“As of December 31, 2013, the Network had promoted 47 cooperatives agreements, achieving 147% of the outstanding goal”

Two types of agreements are promoted:

#### *Venture Capital Ecosystem*

In this type of agreement efforts are focused on detecting entrepreneurs through incubators, to refer them to the Venture Capital department.

#### *Strategic Alliance with Entities*

The purposes of these alliances, as established by the framework agreement, specifies that efforts will be made by both parties to offer information and provide the necessary orientation for MSMEs to access financing, as well as to establish training programs based on the various courses offered by Nafinsa, to be attended in person or online, for the benefit of the particular chamber of commerce.

The chamber of commerce also makes a commitment to carry out activities including publicizing Nafinsa’s portfolio of products and services, organizing promotional events in coordination with Nafinsa, and jointly designing training programs.

As a result of the above, a closer working relationship is developed with chambers of commerce, and this assists state representatives in detecting the needs of each sector, and creating or modifying the Institution’s products and services.

As of December 31, 2013, the Network had promoted 47 cooperatives agreements, achieving 147% of the outstanding goal of 32 agreements.

#### ▪ **Potential Clients Referred by Advisory Councils**

The Advisory Councils continue to maintain their contribution to improved institutional performance, by operating as promotional and advisory entities for Nafinsa programs. Aligned to the 2013 work program, which included the re-launching of this important network, 128 Council sessions were held during the period from January to December. In addition to publicize the Institution’s programs, over 90 presentations were made during these sessions, about topics

“Aligned to the 2013 work program, 128 Council sessions were held during the period from January to December”

related to development banking, including financial/economic and local development topics. Experts from Nafinsa departments as well as speakers from outside the Institution also participated in these sessions.

With the aim of strengthening communication with and participation of its Advisory Councils, Nafinsa, through its Regional Promotion and Institutional Relations Departments, participated in 26 sessions in the following Mexican states:

Advisory Council	
Baja California	Morelos
Baja California Sur	Nuevo Leon
Chihuahua	Puebla
Mexico City (2)	Queretaro (2)
Coahuila	Quintana Roo
Colima	San Luis Potosi
Durango	Sinaloa
State of Mexico	Sonora
Guerrero	Tabasco
Hidalgo	Tamaulipas
Jalisco	Tlaxcala
Michoacan	Veracruz



**141**

**CLIENTS** were referred during 2013 by the Advisory Council members

Advisory Council members are an important source of triple A clients for all of Nafinsa’s state-level representatives, since these members are not only potential clients but they also refer other clients with the same characteristics, from both the public and private sectors.

During 2013 Advisory Council members referred 141 clients to the Institution, for using its various products and services. This figure represents 122% of the annual satisfactory goal.



10 11 12 15 18 19 22 23 24 25 26 29 30 31

10 11 15 18 19 22 23 24 25 26 29 30 31

# Corporate Banking

## Guarantees on Securities Instruments

Nacional Financiera maintains its Guarantees on Securities Program, with the aim of encouraging companies to improve their credit rating by issuing securities, thus obtaining major benefits, such as placing larger amounts for longer terms with investors and optimizing funding costs.

Align with the objective established at the beginning of 2013, to improve and adapt the conditions for granting guarantees, because of the market evolution, and for the purpose of making this product more competitive and attractive for companies eligible for this assistance, Nafinsa has been able to maintain this program through the placement of new guarantees by companies that for some years now have continued to renew their issuances with backing from our Institution.

The process of promoting the Guarantees on Securities Program continued during 2013, with adaptations among securities intermediaries, associations and forums, as well as Afores, the Mexican Association of Retirement Fund Managers (*Asociación Mexicana de Administradoras de Fondos para el Retiro—Amafore*) and the Mexican Stock Exchange (*Bolsa Mexicana de Valores*). The goal is to bring together an integrated vision of the program between those on both the supply and demand sides, and to promote the debt securities market in Mexico, as part of the Institution's mandate.

### **Some of the actions in this promotion process during 2013 were the following:**

An event entitled “The debt market: a real source of financing” was held with the objective of promoting the development of the debt securities market and Nafinsa's securities guarantees among issuers that already participate in the capitals market on the Mexican Stock Exchange but do not yet participate in the debt securities market. The event was organized with the Mexican Association of Securities Intermediaries and the Mexican Stock Exchange. Those included representatives of companies that provided successful examples, already participating in the debt market and using Nafinsa's securities guarantees.

At the end of the year, the induced balance from Guarantees on Securities Instruments was 1,346 million pesos in currently-held issuances.



# 1,346

**MILLION PESOS** was the induced balance from Guarantees on Securities Instruments in currently-held issuances

“During 2013 Nafinsa authorized four structured loans, thus reaching a current total of 13,639 million pesos in this financing program”



### **Structured Financing**

Structured credit is a mechanism through which financing is obtained by way of a vehicle with a specific purpose in which companies monetize their asset portfolios, making it possible to isolate operational risk and obtain higher credit ratings, without negative effects on their companies' overall situations.

This program is directed at medium and large companies that generate portfolios with receivables. During 2013 Nafinsa authorized four structured loans, thus reaching a current total of 13,639 million pesos in this financing program.

In the interest of maintaining approximately 85,000 direct and indirect jobs generated by nine sugar refineries expropriated and administered by the federal government, Nafinsa authorized a structured loan of up to 1,800 million pesos, of which 900 million pesos were disbursed in 2013, for repayment in 2014.

### **Financial Advisory Services**

During 2013 Nafinsa responded to ten requests for technical valuation reports, thus assisting in the placement of *Certificados de Participación* (CPOs) on the Stock Issuance Market for the benefit of companies from various sectors.

### **Government Banking**

During 2013 Nafinsa continued to administer loans previously granted to two semi-public entities, Pemex and CFE. It is important to mention that of the financing granted to these entities, a loan to the CFE for 2,000 million pesos (granted in 2010) was due in December 2013, but prior to repayment, authorization was given to renew the loan in the amount of 3,000 million pesos.

“The two initial disbursements of financial resources for Ethylene XXI project were made in 2013”

Nafinsa continues to actively participate in managing the guarantee granted to creditor banks that financed the construction of Terminal 2 of the Mexico City International Airport.

## Financing of Projects

### Financing of Petrochemical Plant

In July 2012 was authorized a syndicated loan of 280 million dollars for the development of a petrochemical complex for producing ethylene and polyethylene (*Proyecto Etileno XXI*). This project consists of an ethylene cracker with the capacity to produce 1,050,000 metric tons annually, and three polyethylene plants (two high density and one low density) with an annual production of 1,050,000 metric tons. This ongoing investment project (*Etileno XXI*), located in Coatzacoalcos, Veracruz, is one of the most important conducted in recent years in Mexico, involving over 4,500 million dollars.

In 2013 the project continued in its construction phase. It will have an enormous impact at regional and national levels, creating large numbers of jobs (approximately 8,000 during the construction phase and 3,000 during operations). The impacts in terms of import substitution will be approximately 1,500 million dollars annually, and export generation during its initial years.

At the end of 2012, the project’s financing was confirmed, and in 2013 the two initial disbursements of financial resources were made. The amount disbursed during the past year was 193.9 million dollars, and the pending amount to be disbursed is 86.1 million dollars, projected for between 2014 and 2015.

### Financing of Administrative Center, Tlajomulco

The financing of an Administrative Center in Tlajomulco was authorized in August 2013, which consist of a first-tier loan to refinance the outstanding loan balance of approximately 93 million pesos. The original loan was authorized on September 22, 2011. In addition a 22 million pesos loan was authorized as part of a syndicated loan.





“Nafinsa is promoting new financing schemes and investments from different sources to projects that generate a positive environmental balance”

## Financing of Tarahumara Pipeline

In March 2012 a simple loan was authorized under the First-Tier Credit Program (*Crédito Senior*) for a Mexican company, in an amount of US dollars equivalent to 790 million pesos, as part of a syndicated loan of up to 380 million dollars. The purpose of the loan was to finance the gas pipeline construction and operation at the state of Chihuahua, the Tarahumara Pipeline, with a length of 381 kilometers approximately. During 2013 disbursements were made for a total of 344 million pesos.

The financed company was in charge of the gas pipeline construction, and is currently providing the transportation of natural gas to CFE cogeneration plants. It is important to highlight that is the first Mexican company which has a service contract of this type.

This project underscores the country’s energy policy focused on gradually replacing dependence on fuel oil and oriented production and consumption toward more efficient and clean energies. In addition, this project has made it possible to expand the natural gas system, which it is the point of connection for the gas pipeline network that will be developed in the northeastern part of the country in the coming years.

## Sustainable Projects

Align with the federal government’s objectives focused on promoting Sustainable Development in Mexico;<sup>1</sup> as stipulated in the National Development Plan for 2013-2018, Nafinsa is promoting new financing schemes and investments from different sources to projects that generate a positive environmental balance.

Along these lines, the general objective of Nafinsa’s Sustainable Projects Department consists of granting short, medium and long-term financing to national and international companies and financial intermediaries from both the private and public sectors that promote projects in Mexico

<sup>1</sup> Sustainable Development refers to the growth process focused on taking care of and protecting the environment, and consists of three aspects: ecological, economic and social. The latter results from the relationship between social well-being and the environment and economic prosperity.

## “Nafinsa is a leading bank in structuring and coordinating financing for sustainable and energy projects”

oriented toward ecological, economic and social development based on making better use of natural resources and creating added value.

Nafinsa is a leading bank in structuring and coordinating financing for sustainable and energy projects, through the following products:

- Designing of financing schemes
  - Structuring (Project Finance)
  - Loan syndication
  - Long-term funding in pesos and dollars (beginning at 20 million dollars)
  - Financing in pesos to foreign financial intermediaries and multilateral financing entities
  - Short-term financing of Added Value Taxes (*Impuesto al Valor Agregado—IVA*) resulting from investments required during project construction
  - Fiduciary services
  
- Tailored financing
  - Debt Sizing based on cash flow
  - Repayment in line with the Debt Service Coverage Index
  - Terms in line with electricity sales contract
  - Adequate level of leveraging to support project performance





**697**

**MILLION PESOS** is the amount with which Nafinsa participates in Demex 1 project syndicated financing

During 2013 Nafinsa's portfolio consisted of the following sustainable and energy projects:

### Eurus

In 2010 Nafinsa entered in financing projects of renewable energy generation, with its participation in the Eurus project, consisting of a wind park construction and operation with an installed capacity of 250.5 MW in the state of Oaxaca.

Nafinsa participated in the syndicated financing with 22.5 million dollars, equivalent to 4% of the project's total investments, with a 15-year term. During the wind park's construction, over 1,300 jobs were created, and an ongoing 50-person staff is required for its operations.

The Eurus project has been operating since June 2010, and prevents the emission of approximately 600,000 metric tons of CO<sub>2</sub> per year.

### Desarrollos Eólicos Mexicanos de Oaxaca 1 (Demex 1)

With this project, consisting of the construction and operation of a wind park with an installed capacity of 90 MW in the state of Oaxaca, Nafinsa entered into a number of roles such as: structuring bank and leading coordinator of financing, and as administrative, accredited and fiduciary agent. Nafinsa has thus been involved in the design, structure and implementation of the project's financial scheme; coordination and management of activities between the accredited party and the banking syndicate that provided the financing; and also monitoring of the project's progress during its construction phase up until operations began, plus management during the project's operations.

Nafinsa participate in the syndicated financing with 697 million pesos equivalent to 27% of the project's total investments, with a 16-year term. During the park's construction, over 300 jobs were created, and an ongoing 15-persons staff are required for its operations.

Project Demex 1 has been operating since November 2012, and prevents the emission of approximately 220,000 metric tons of CO<sub>2</sub> per year.



“The EDI project has been operating since July 2013 and prevents the emission of approximately 390,000 metric tons of CO<sub>2</sub> per year”

### Eoliatec del Istmo (EDI)

Through Nafinsa’s participation in this project, a business relationship was developed with EDF Energies Nouvelles México (the project’s promoter), which is a subsidiary of the EDF Group, a French company that is one of the world’s leaders in energy generation, transformation, sale and distribution. The project consisted of constructing and operating a wind park with an installed capacity of 164 MW in the state of Oaxaca.

Nafinsa participated in the syndicated financing with 703 million pesos equivalent to 14% of the project’s total investments, with a 13.5-year term. During the project’s construction phase, approximately 1,200 jobs were created, and an ongoing 15-person staff is required for its operations.

The EDI project has been operating since July 2013 and prevents the emission of approximately 390,000 metric tons of CO<sub>2</sub> per year.



“The Demex 2 project consisted of the construction and operation of a wind park in the state of Oaxaca”



### Desarrollos Eólicos Mexicanos de Oaxaca 2 (Demex 2)

Given the successful conclusion of the Demex 1 wind park, Nafinsa received the mandate to head the development of the second phase, Desarrollos Eólicos Mexicanos de Oaxaca 2. Once again it participated as the structuring bank and administrative, accredited and fiduciary agent. The project consisted of the construction and operation of a wind park with an installed capacity of 137.5 MW in the state of Oaxaca.

Nafinsa participated in the syndicated financing with 893 million pesos equivalent to 23% of the project’s total investments, with a 14.5-year term.

The Demex 2 project is currently in its construction phase, and is expected to begin operations in July 2014. It is anticipated that it will prevent the emission of approximately 330,000 metric tons of CO<sub>2</sub> per year.

Nafinsa also granted a simple loan to Demex 2 to finance the Added Value Tax (Impuesto al Valor Agregado—IVA) generated during the project’s construction, in the amount of 143 million pesos.

# 137.5

**MW** is the installed capacity of Demex 2 wind park

# 893

**MILLION PESOS** is the amount with which Nafinsa participates in Demex 2 project syndicated financing



“It is anticipated that the EDP project will prevent the emission of approximately 380,000 metric tons of CO<sub>2</sub> per year”

### Eoliatec del Pacífico (EDP)

As a result of the business relationship between Nafinsa and companies in the EDF Group (since Nafinsa’s participation in financing the EDI wind park), EDF Energies Nouvelles México invited Nafinsa to participate in the financing of a new project, consisting of the construction and operation of a wind park with an installed capacity of 160 MW in the state of Oaxaca.

Nafinsa participated in the syndicated financing with 722 million pesos equivalent to 14% of the project’s total investments, with a 13.5-year term

The EDP project is currently on construction phase, and is expected to begin operations in April 2014. It is anticipated that it will prevent the emission of approximately 380,000 metric tons of CO<sub>2</sub> per year.

### Mareña Renovables Capital

This project consists of the construction and operation of a wind park with an installed capacity of 396 MW in the state of Oaxaca.

Nafinsa participates in the syndicated financing through four differentiated transactions: financing for the project’s construction and operation, with 484 million pesos; financing of the IVA generated during the project’s construction, with 410 million pesos; funding in pesos to the Credit Agricole Corporate and Investment Bank, a foreign financial institution, with 600 million pesos, and funding in pesos to the Inter-American Development Bank (IADB), a multilateral financing entity, with 285 million pesos.

### Aura Solar I

During 2013 Nafinsa became the first Mexican bank to open up a segment of structured financing to photovoltaic solar projects, and also enter into a new scheme of small-scale electricity generation. Under this scheme, the Federal Electricity Commission (CFE) is required to purchase all the energy generated by the solar park, applying a tariff equivalent to as much as 98% of the Total Short-Term Cost.



# 722

**MILLION PESOS** is the amount with which Nafinsa participates in the syndicated financing of EDP project

# 396

**MW** is the installed capacity of the Mareña Renovables Capital project

“Aura Solar I project consists of the construction and operation of a photovoltaic solar park in the state of Baja California Sur”



**630**

**MILLION PESOS** is the amount with which Nafinsa participates in the syndicated financing of Aura Solar I

The project consists of the construction and operation of a photovoltaic solar park with an installed capacity of 38.6 MW in the state of Baja California Sur.

Nafinsa is participating in the syndicated financing with 630 million pesos equivalent to 50% of the project’s total investments, with a nine-year term.

The project has been operating since November 2013, and prevents the emission of approximately 60,000 metric tons of CO<sub>2</sub> per year.

Nafinsa also granted a simple loan of 100 million pesos to Aura to partially finance the Added Value Tax (Impuesto al Valor Agregado—IVA) generated during the project’s construction.

### Generadora Eléctrica San Rafael (San Rafael)

Also during 2013 Nafinsa entered into a new segment of electricity generation, diversifying its energy projects portfolio, by financing a small hydroelectric plant.

The project consists of the construction and operation of a small hydroelectric plant with an installed capacity of 28.8 MW in the state of Nayarit, under the scheme of own-use electricity generation.

Nafinsa is participating as the exclusive creditor of financing in the amount of 522 million pesos equivalent to 56% of the project’s total investments, with a 13.5-year term.

The project is in its construction phase, and when operating, will prevent the emission of approximately 63,000 metric tons of CO<sub>2</sub> per year.

Nafinsa also granted a simple loan of 113 million pesos to San Rafael to partially finance the Added Value Tax (Impuesto al Valor Agregado—IVA) generated during the project’s construction.

“Nafinsa has developed an important portfolio of projects, primarily in wind energy, but also in mini-hydraulic and solar energy”

### Results:

Nacional Financiera, as a promoter of sustainable energy use, obtained the following during 2013:

- Satisfactorily fulfilled the Institution’s objective of promoting and assisting projects that generate a positive environmental balance. Also, promoted new segments of services, entering into the financing of solar and hydroelectric technologies and new schemes of electricity generation such as small-scale production.
- Developed a diversified portfolio of projects, promoting the development of eight renewable energy generation projects, with a joint installed capacity of approximately 1.3 GW, through long-term financing.
- Developed new financial schemes that incorporate diverse participants in their structures and that permit the financial viability and profitability of sustainable and energy projects.
- Worked together with foreign financial institutions and multilateral financing entities to provide incentives for large-scale development of renewable energies.
- Participated actively in international forums on sustainable development to promote efficient energy use, the use of cleaner fuels and the development of alternative energy sources.

These results demonstrate that Nafinsa has developed an important portfolio of projects, primarily in wind energy, but also in mini-hydraulic and solar energy. Nafinsa plans to begin to finance projects involving co-generation and geothermal production, energy efficiency and waste recovery and treatment.

The Institution will also continue to support the development of sustainable and energy projects that are strategically important for the country, by promoting new, attractive financing structures for both national and foreign investors.

“Nafinsa will continue to support the development of sustainable and energy projects that are strategically for the country”



“Mexico I Fund of Funds has contributed to generating over 36,300 direct jobs in 119 companies in Mexico”

## Investment programs

### Indirect investment

The corporate structure of *Corporación Mexicana de Inversiones de Capital* (CMIC or Fund of Funds) is based on investment vehicles such as CMIC subsidiaries, with the participation of new investors (national, foreign and Afores), making it possible to develop strategic alliances at the national and international levels with renowned participants in the risk capital industry. In this way the needs of Mexico’s risk capital industry are addressed in an orderly manner.

Investment vehicles operating under the guidance of the Fund of Funds are: Mexico I Fund of Funds, Fund of Entrepreneur Capital Funds (Mexico Ventures I) and Mexico II Fund of Funds. In addition, at the end of December 2013, there were 11 funds administered directly by CMIC, or in other words, funds not assigned to a particular investment vehicle, and representing a commitment of 99.27 million dollars.

Commitments as of December 2013:

- **Mexico I Fund of Funds** maintains commitments in 22 funds for a total of 274.6 million dollars. Of the 22 funds in the portfolio, 11 are in their investment phase and 11 are in disinvestment. This investment vehicle has contributed to generating over 36,300 direct jobs in 119 companies in Mexico. The partners in this Fund of Funds are CMIC and the Mining Development Trust (Fideicomiso de Fomento Minero—FIFOMI), which committed 10 million dollars in funds dedicated to the mining sector.
- **Fund of Entrepreneur Capital Funds** is designed for companies in their initial stages and involved in sectors such as the innovation, information technology, biotechnology and health sectors. On December 2013 the portfolio of the Fund of Entrepreneur Capital Funds consisted of seven formally-established funds, one fund in the process of becoming formally established, and six co-investments in companies, with a total commitment of 53 million dollars. The partners in this Fund of Funds are Nacional Financiera through CMIC (40 million dollars), the Secretariat of Economy (30 million dollars),



“Mexico II Fund of Funds plans to obtain up to 5,000 million pesos through the issuance of a Capital Development Certificate (CKD)”

and during July 2012 a contribution from the Andean Development Corporation (*Corporación Andina de Fomento*—CAF) in the amount of 10 million dollars was authorized. There is also a commitment for 1% of the financed capital from the Fund administrator.

- **Mexico II Fund of Funds** plans to obtain up to 5,000 million pesos through the issuance of a Capital Development Certificate (CKD).

During 2013 CMIC approved investments in nine funds with commitments of 157 million dollars and responded to requests of 60.9 million dollars to support 92 companies. Nafinsa participates with an amount of 119.8 million dollars as a member of the Andean Development Corporation (CAF), equivalent to 1.7% of the ordinary capital in this multilateral entity.

Nafinsa’s most recent contribution, in June 2012, allows the chairman of Nafinsa’s Board of Directors (Secretary of Finance and Public Credit) to participate as a member of CAF’s Administrative Board. The objective of this participation is to benefit from schemes of financial and technical assistance in the development of Mexico’s small and medium-sized companies, and its risk capital industry.

### Entrepreneurs Support Program

During the second half of 2013, efforts continued on developing a strategy for promoting Venture Capital (Seed Capital) in Mexico.

The four elements encompassing all the participants in the capital investment ecosystem were strengthened, and the following activities were carried out:

#### I. Capital Investment

- Operations of the Fund of Entrepreneur Capital Funds I (Mexico Ventures I)

The Fund of Entrepreneur Capital Funds is invested in eight entrepreneur capital funds, with a focus on companies in their initial stages in sectors including the innovation, information technology,



“During 2013, efforts continued on developing a strategy for promoting Venture Capital in Mexico”

“Currently, the partners of the Fund of Entrepreneur Capital Funds are: Nacional Financiera through CMIC, the Secretariat of Economy and the Andean Development Corporation”



biotechnology and health sectors and sustainable projects, and five co-investments in companies, with a total commitment of 53 million dollars as of December 31, 2013. Currently, the partners of this Fund of Funds are: Nacional Financiera through CMIC, with 40 million dollars; the Secretariat of Economy, with 30 million dollars; and the Andean Development Corporation (CAF), with 10 million dollars.

## II. Conacyt-Nafinsa Entrepreneurs Fund

This Fund began to operate in 2004, and is currently in a phase of disinvestment. Assistance was provided through this program to 43 projects, representing a total investment of 224.4 million pesos. The current status of this portfolio is as follows: five projects in a disinvestment phase, equivalent to an invested amount of 25.2 million pesos; 28 projects in a monitoring phase, with a value of 157.7 million pesos; five provisioned projects, equivalent to an investment of 16.1 million pesos; two projects in legal processes, involving a total of 7.3 million pesos, including support from the corresponding legal opinion; and three projects with acknowledged losses, equivalent to 18.2 million pesos, with the corresponding losses authorized through the Committee. During the second half of 2013, value criteria and formats were made uniform through the following seven main focuses: 1) Shareholding (securities), 2) Financial information, 3) Financial analysis, 4) Five-year business plan and projections, 5) Reasonable value of investment, 6) Compliance with agreements, assemblies and councils, and 7) Actions to follow.

- Startup Capital Co-investment Fund

The Startup Capital Co-investment Fund created by Nafinsa and the Secretariat of Economy (SE) increased its available resources for direct investments in companies and indirect investments through investment funds or vehicles in companies established in national territory, in the amount of 450 million pesos (300 by SE and 100 by CMIC). As of December 31, 2013, 16 cases had been authorized by the Trust Fund's Technical Committee. Three were investment funds and 13 were companies, with a total commitment of 144.6 million pesos. In addition one case was in the process of being authorized, representing five million pesos.

## II. Development of Fund Managers

Work continues on an ongoing basis with educational institutions and specialists to ensure that those responsible for managing Risk Capital investments receive training through special programs, conferences and workshops. Efforts have been made in conjunction with Inadem to structure a Program to Develop the Venture Capital Ecosystem, and as of December 31, 2013 the following progress had been made:

- In November 2013 the Venture Capital Trust Fund was registered in the México Empeñe Trust Fund platform, as an intermediate entity.
- In an extraordinary session of the Venture Capital Trust Fund's Technical Committee, authorization was given to open a sub-account for handling any program resources received.
- The Program was proposed in Request FME2013-7.
- On December 18, 2013 México Empeñe Trust Fund authorized the Program and the Intermediate Entity.

Various meetings have been held to develop the final proposal for the Cooperative Agreement and Guidelines, but a final consolidated version has not been achieved yet.

## III. Technical Assistance

As a complement to the assistance granted, training methodology and advisory services continue to be provided to ongoing projects that may be eligible for receiving resources from a Nafinsa or federal government program.

## IV. Ecosystem

The network of strategic allies in the ecosystem platform consists of over 60 participants, through which ongoing networking has been established, with the aim of providing services to projects in their initial stages, capitalization through angel investors or private funds, access to the industry's forums, advisory services regarding intellectual property, technology transfer and financial models, as well as events and workshops focused on high-impact entrepreneurs.



“In November 2013 the Venture Capital Trust Fund was registered in the México Empeñe Trust Fund platform, as an intermediate entity”

“During 2013 a new program entitled Programa Mercado Institucional de Deuda Alternativa Societaria (MIDAS) was designed to effectively respond to Nafinsa’s mandate”



In 2013 activities included ten conferences, eight committee meetings, ten events, six expos, four seminars, 26 Nafinsa workshops and two Venture Capital forums.

In addition, visits were made to the following states: Zacatecas, Chihuahua, Veracruz, Queretaro, Hermosillo, Ciudad Juarez, Monterrey and Tijuana.

- Listing: Over 70 members in ecosystem
- 2012 Agreements: 17 allies
- 2013 Agreements : 17 new allies
- In process: 10 allies
- In renewal process: 30 allies

The following impacts have been registered in social networks: Facebook, 5,142 users; Twitter, 15,842 followers; You Tube, 69 videos with 7,679 views; and LinkedIn, 493 contacts. The platform has: 63 profiles of strategic alliances, 250 entrepreneurs and 320 persons registered.

### **Programa Mercado Institucional de Deuda Alternativa Societaria (MIDAS)**

During 2013 a new program entitled *Programa Mercado Institucional de Deuda Alternativa Societaria* (MIDAS) was designed to effectively respond to Nafinsa’s mandate. This program brings together the Institution’s credit assistance to enable companies to implement their modernization and expansion plans to enter the Securities Market. The objective is to encourage companies to become candidates for issuing debt on the Mexican Stock Exchange, within a period of no more than three years. Companies strengthen their corporate governance through the program with the aim of assuring transparency and certainty to third parties.

Cross-cutting areas of focus were determined in line with the National Development Plan for 2013-2018, and include the following:

- Give an impulse to companies to obtain access to more attractive financing options

“Assistance are companies in the industrial, commercial and services sectors that make a commitment to issue debt within a time period no longer than three years”

- Financing to expand productive companies
- Promote financing through the Securities Market
- Expand access to credit through development banks in areas of high priority for national development

In this regard meetings were held with the Mexican Stock Exchange, from the Chairman’s office to the Issuance Promotion department, with the Secretariat of Economy, and with medium and large companies, for the purpose of defining the terms of the Program’s Operating Rules.

During Nafinsa’s Board of Directors session on October 28, 2013, was approved the MIDAS Program, which will assist Mexico’s medium and large companies by granting first-tier credit for fixed assets and/or work capital and/or liability restructuring. This will be accompanied by a process of institutionalizing companies’ governance bodies, operative processes, and computer systems for generating high-quality financial and accounting information, among other aspects. The objective is to comply with Mexican Stock Exchange standards for debt issuance, as a medium and long-term financing option.

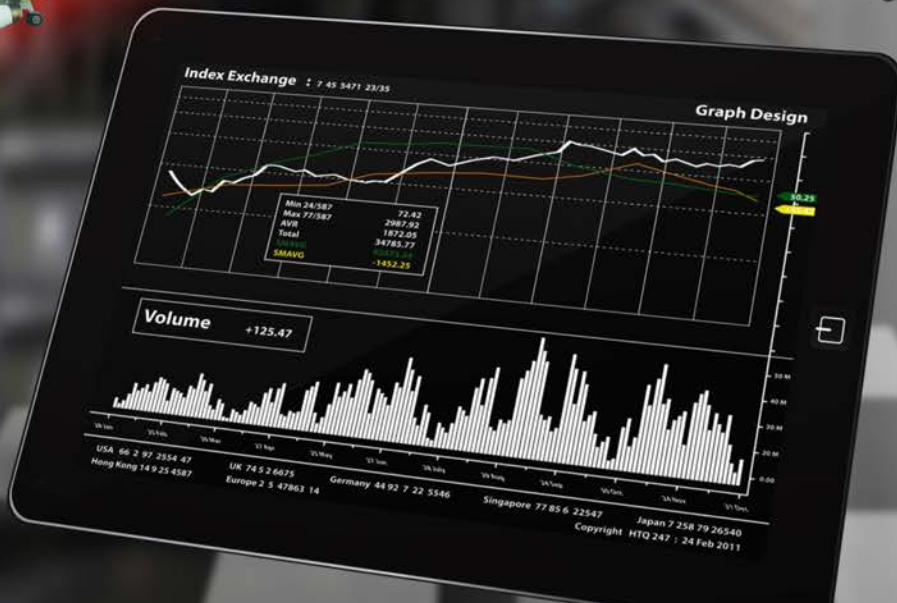
Assistance are companies in the industrial, commercial and services sectors that make a commitment to issue debt within a time period no longer than three years, through a specific program designed with this purpose in mind. Companies in the financial sector are not eligible to participate in this program.

During November the necessary steps were taken to incorporate the Operating Rules in Nafinsa’s Credit Manual and to invite specialized service providers with experience in successfully assisting companies with debt issuance to become familiar with Nafinsa’s new program. They were also encouraged to participate on identifying prospects that, based on their financial and market situations, could place themselves in a position equivalent to BBB agency’s rating.

On December 2013, nine eligible companies were identified, and the file of one of them is already complete.



“MIDAS Program was approved during Nafinsa’s Board of Directors session on October, 2013”



# International

## Administration of Projects

The Institution has to continue working on receiving financing from multilateral and bilateral sources, at competitive rates and terms, to finance high-priority projects and programs in Mexico. It has used a strategy aligned with the Secretariat of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*—SHCP).

In this way Nafinsa complies with commitments acquired by Mexico at the international level and by the Institution as a borrower with International Financial Entities (IFE), to promote sustainable development, protect biodiversity, assist on mitigating natural disasters, seek energy generation alternatives, and diminish impacts from climate change.

The disbursement of resources corresponding to loans from IFEs in which Nafinsa is the borrower represented 318.3 million dollars as of December 31, 2013. Among the programs assisted during the year, the following are particularly noteworthy:

IFE	Loan	Program
IDB	2226/OC-ME / CCLIP 1	Program for Promoting the Development of SME Suppliers and Contractors for the National Petroleum Industry and Alternative Energy Projects Associated with the Petroleum Industry. First Program under the Conditional Credit Lines for Financing of Investment Projects of the Program for Assisting Mexico's Business, ME-X1010.
IDB	2671/OC-ME / CCLIP 2	Program for Assisting Mexico's Business Development. Second Program under the Conditional Credit Lines for Financing of Investment Projects, ME-X1010.
IDB	2631/CT-ME CTF under CCLIP	Program for Financing Renewable Energies (PFER).
IDB	2843/OC-ME / CCLIP 3	Third Program under the Conditional Credit Lines for Financing of Investment Projects, ME-X1010. Program for Financing Renewable Energies.
WB	BM CTF-098062 / 50.0	Energy Efficiency Program / Household Appliance Replacement Program (FIDE, Trust Fund for Electricity Savings).
CAF	CAF / 300 million dollars	Uncommitted line, for 300 million dollars.
KfW	KfW / 41.1 million dollars	Line of Credit for Environmental Improvement of Small and Medium Establishments (SMEs) Program.
KfW	KfW / 64.9 million dollars	Energy Efficiency Program / Household Appliance Replacement Program.



# 318.3

**MILLION DOLLARS**, the disbursement of resources corresponding to loans from IFEs in which Nafinsa is the borrower

# 4,484

**MILLION DOLLARS** is the total amount of the Financial Agent portfolio, as of December 31, 2013

# 2,446

**MILLION DOLLARS** amounted disbursements during 2013

“Nafinsa hosted the Second Annual Meeting of the Montreal Group. There was an exchanging of experiences in relation to key topics such as: Key Performance Indicators, Financing of Intangible Assets, and Guarantees”

Technical Development Assistance during 2013 included the following:

IFE	Technical Assistance / Donation	Program
IDB	ATN/OC-11073-ME	Assistance Program for Feasibility Studies for Sustainable Projects.
IDB	ATN/TC-13019-ME	Program for Strengthening Nafinsa’s Sustainable Projects and Climate Change Unit.
IDB	ATN-MC-13341-RG	Program of Technical Assistance to Development Bank with Financing Strategies for Mitigation of Climate Change.

### International Development Assistance

In 2013 activities were carried out at international forums to promote development assistance and to exchange best practices with development institutions from other countries. The main objective has been to enhance Nafinsa’s participation in areas of global interest and in projects of high priority for Mexico, related to climate change, energy efficiency, renewable energies and sustainable projects.

In this context Nafinsa hosted the Second Annual Meeting of the Montreal Group, with participation by officials from the seven development banks mentioned and from various Nafinsa departments. There was an exchanging of experiences in relation to key topics such as: Key Performance Indicators, Financing of Intangible Assets, and Guarantees.

As a member of the International Development Finance Club (IDFC), Nafinsa participated in working groups on topics such as renewable energies, energy efficiency, and economic and social inclusion. It presented successful cases such as the Public Transportation Vehicle Replacement Program for reducing pollution and the diversify energy matrix toward new renewable, clean energy sources.

Also, with the aim of continuing to strengthen Nafinsa’s institutional relations with development banks in the Latin American, Caribbean, and Pacific Asian regions, our Institution has participated in exchanging best practices for implementing financing and guarantee programs to SMEs, at events such as the 43rd Ordinary Meeting of the Latin American Association of Financial Institutions for Development (Asociación Latinoamericana de Instituciones Financieras para el Desarrollo—Alide), in Argentina; the

Fifth Meeting of Development Bank Institutions in Latin America and Europe, organized by Alide and *Instituto de Crédito Oficial* (ICO), in Spain; and the 10th Annual Meeting and Conference of Financial Development Institutions of Asia-Pacific Economic Cooperation (APEC) associated with SMEs, in Singapore.

### Financial Agent

As a Financial Agent of the Federal Government, Nafinsa administers the operations contracted with International Financial Entities. It guarantees high-quality service to the Federal Government's offices and entities that receive external financing. In addition, Nafinsa administers the donations received by executing entities as a complement to certain loans. This activity contributes to the generation of income for the Institution through the commissions received from the SHCP.

### Portfolio

As of December 31, 2013, Nafinsa's portfolio as a financial agent consisted of 24 loans: 10 from the International Bank for Reconstruction and Development (IBRD), 10 from the Inter-American Development Bank (IDB), and four from the International Fund for Agricultural Development (IFAD); as well as 13 donations: 10 from IBRD, one from IDB, and two from IFAD. The total amount of the portfolio was 4,484 million dollars. The main sectors financed were the agriculture, social, education, environment, energy and health sectors. Disbursements during 2013 amounted to 2,446 million dollars.

In 2013, Nafinsa confirmed its role as the Federal Government's primary Financial Agent. It negotiated three loans with the IDB for financing: the *Oportunidades* Program to be implemented by the National *Oportunidades* Coordinating Office an amount of 600 million dollars; the Program for Competency-Based Training of Human Resources an amount of 170 million dollars, under the responsibility of the Secretariat of Public Education (SEP); and the Program for Promoting Productivity in Mexico an amount of 800 million dollars, under the responsibility of the Federal Government, in the modality of policy adjustment loan.





# Treasury and markets

## Treasury

### Funding

In order to assure that the Institution consistently has the necessary resources in national currency in the best cost and term conditions, the Treasury used a funding strategy based on diversifying funding sources and carrying out hedging operations.

It is important to underscore the successful placement of Developing Banking Securities Certificates in the syndicated auction format. These certificates correspond to a new type of “CD” created by Nacional Financiera to provide more marketability to the investment instrument, and were issued at three and ten-year terms, in the amounts of 2,000 million pesos and 3,000 million pesos, respectively. Participating in the auction were 19 of the 34 brokerage houses invited. The resources obtained from this placement were allocated for financing the activities specified in the Institution’s Organic Law.

With regard to funding in foreign currency, the promotion, negotiation, placement and issuance of Nafinsa’s Program for Certificates of Deposit in foreign currency through its London Branch made it possible to assure access to significant volumes of resources and to maintain levels close to the program’s maximum amount for the third consecutive year. Given the significant demand for Nafinsa’s CDs, efforts were made during the year’s last quarter to increase the maximum amount for these CDs, from 1,000 to 2,000 million dollars. The use of this additional capacity will take place gradually in accordance with the limits placed on the Institution’s external debt.

The volumes operated contributed significantly to achieving goals for funding and funding costs, making this a profitable operation for Nafinsa, and enabling the Institution to maintain its solid financial position and its presence in international markets.

The London Branch continued its strategy of rationalizing and optimizing resources, operating with a minimal structure and maintaining sufficiently strict control over its administration and expenditures, as well as its overall operations, while complying with all the local regulatory stipulations.



“The Treasury used a funding strategy based on diversifying funding sources and carrying out hedging operations”



“Nafinsa maintained its strategy of minimizing the impact from changes in interest rates, using the necessary hedging operations to protect the Bank’s revenue corresponding to the financial margin”

## Balance Management

Nafinsa maintained its strategy of minimizing the impact from changes in interest rates, using the necessary hedging operations to protect the Bank’s revenue corresponding to the financial margin, thus meeting the Treasury’s objectives of ensuring that balance risks remain within approved limits, while strengthening the Bank’s capital.

- **Participation in the Primary and Secondary Debt Market.** The foreign currency debt and investment portfolios have met their objective of serving as hedging instruments for the Institution’s balance.

During 2013 the Treasury monitored this market closely, including primary debt issuances in foreign currency by Mexican issuers, as well as their evolution in the secondary market, in order to identify investment opportunities. The Institution participated in most of the primary placements of Federal Government issuances, as well as those of national semi-public companies, such as Pemex and CFE, generating strategic assets that have not only complied with the objective of becoming an instrument for Institutional balance coverage, but that have also been an important vehicle in the generation of profits throughout financial margins.

## Markets

Through its participation in financial markets, Nafinsa made investments using conventional instruments, making it possible to obtain significant revenue that complemented what was obtained in the Institution's other business areas.

The Institution continued to offer advisory services in managing innovative products that allow for expanding the range of investment options, to comply with the institutional objective of contributing to the development of the national Securities Market.

Ongoing promotion work was carried out with the Institution's investors and the country's primary public and private treasuries, to offer them Nafinsa's financial services and diverse banking, government and corporate instruments, at different terms, as well as the purchase-sale of and investment in foreign currency, contributing to meeting the Institution's needs for funding with resources at competitive market levels.

“Ongoing promotion work was carried out with the Institution's investors and the country's primary public and private treasuries, to offer them Nafinsa's financial services”

## Program for Direct Sale of Certificates to the Public (CETESDIRECTO)

During the third year of operations for the “cetesdirecto” channel for distributing Government Securities, efforts continued to be focused on product innovation, with the aim of meeting clients' demands through new functionalities, including:

2012. Express Contracting	
2012. Contracting and operating using mobile devices	
2012. Cetesdirectoniños	
2013. Escalamiento a Fiel	
2013. Debit Card	

“A mutual fund known as *Fondo Estratégico Nafinsa* was constituted for expanding the range of products offered by Nafinsa’s Funds Operator to investors”

These innovative efforts in the “cetesdirecto” platform, together with greater coverage throughout the country by way of strategic alliances with Bansefi and Banjercito, plus various events for promoting the program and the traditions of finances and savings among the population, made it possible to surpass the goals established for the program’s third year.

With the implementation of this new distribution channel, improvements have been made in the financial services offered and the financial inclusion of the Mexican population, by expanding the base of investors that finance public spending, taking into consideration that in the past Government Securities could only be purchased by financial institutions.

### **Mutual Funds**

A mutual fund known as the *Fondo Estratégico Nafinsa* was constituted for expanding the range of products offered by Nafinsa’s Funds Operator to investors, thus contribute to the development of financial markets and promote access to the mutual funds sector for those with only small amounts of savings, and for small and medium-sized companies.



## Legal and fiduciary operations

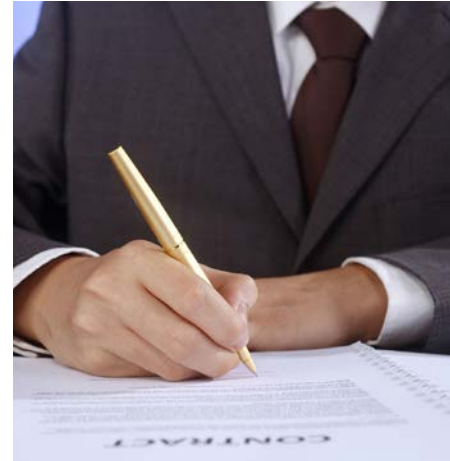
The objective of this area of Nafinsa's work has been to lend certainty to legal processes involved in granting credit, in financial and risk capital markets, and in international and advisory matters. Also, assistance was given to the various departments at Nafinsa in preparing and reviewing contracts for national and foreign operations.

Nafinsa's legal activities led to some important results, including the following: the implementation of Nafinsa's first syndicated auction, with the placement of 5,000 million of pesos; participate in the formalization of issuances; implementation of updates to the Program for Direct Sale of Certificates to the Public (SVD), including providing consulting and reviewing legal instruments needed by authorities, other entities in the financial sector, clients and service providers; as well as the formulation of consulting to financial authorities on compliance applicable provisions, updates and services corresponding to the Securities Debt Support Program.

Tasks also included the review, negotiation, validation and updating of Framework Contracts for Operations to Buy-Sell Stocks and Repos, and Contracts for Banking Deposits of Titles in Commercial Commission and Administration; legal services for business schemes and advisory services in the areas of corporate banking, financial agency operations and financing with international elements, granted by the Institution or that the Institution anticipates receiving; and the development and signing of Securities Collateral and Deposit Contracts for formalizing the constitution of guarantees, when credit lines and discount lines are granted by Nafinsa through the corresponding entities.

In addition Framework Contracts were formalized for Derived Financial Operations and ISDAS (International Swaps Dealers Association Master Agreement), signed with various local and foreign financial institutions, with special support to the process of migrating the respective system. Legal advisory services were provided for the audits conducted by different authorities. Support was given to develop the terms of Nafinsa's operations instruments as a Federal Government financial agent.

As a result of the new businesses the Institution initiated, it has been necessary to create the legal instruments for developing corporate business schemes, this has allowed Nafinsa to participate in syndicated loans and to grant financing projects involving wind energy generation and other alternative energies.



“Nafinsa's legal activities led to some important results, including the implementation of Nafinsa's first syndicated auction, with the placement of 5,000 million of pesos”

“As a result of carrying out the Institution’s strategy for providing fiduciary services, 173 million pesos revenue was generated”

“During the year, 25 new trust businesses were established, thus increasing the total inventory to 490”

Nafinsa has also signed cooperative agreements with various institutions such as Canacintra, Pemex and Coparmex, and has granted loans to Pemex, Financiera Rural and Infonacot, among other important operations.

On the other hand, actions implemented to automate systems, in addition to the records maintained of services provided and requests received and addressed, continue to enhance the quality of legal services related to contracts. An average of 100% was achieved in responding to requests on time, providing continuity to the coordination of a single point of entry to legal services in relation to banking formalization.

### **Trust Operations**

Efforts continued during 2013 to address Nafinsa’s mandate from the Federal Government, allowing the Institution to consolidate itself as a point of reference in the market and a trustee par excellence, thereby contributing to the country’s economic development. During the year, 25 new trust businesses were established, thus increasing the total inventory to 490. A program was carried out to terminate businesses that have not fulfilled their purposes, because they are unproductive, or have objectives that are not align with the Institution, resulting in the termination of 39 trust businesses.

As a result of carrying out the Institution’s strategy for providing fiduciary services, 173 million pesos revenue was generated, an amount similar to the previous year.

# Operations Support

## Quality Management and Organizational Culture

With the goal of maintaining the Institution's dynamic of growth and qualitative changes, Nafinsa maintains its strategy of ongoing improvement in its Quality Management System, in development of human capital, in the strengthening of risk management, and in the incorporation of an appropriate systems in its technological platform for an efficient operation of its programs.

## Quality Management System

With 13 years of operation, Nafinsa's Quality Management System has been consolidated as an ongoing tool for analysis, evaluation and improvement of processes. It has served as a foundation for development and compliance with regulatory elements and institutional observance, including the internal control model and operational risk management, and compliance with the different programs implemented by the Secretariat of Finance and Public Credit (SHCP) and the Secretariat of Public Service (SFP), including the Management Improvement Program (PMG).

In late September 2013, an external quality audit was conducted, permitting an extension of the Institution's certificate of compliance with stipulations in Standard ISO9001:2008 for another three-year period.

## Operational Quality Committees

One of the most important foundations for administering the Quality Management System is the Institution's personnel participation on the self-management of their processes quality.

As of December 31, 2013 a total of 39 Operational Quality Committees had been installed and were operating, meeting at least once each quarter. The results of these committees' operations are evaluated at the end of each session, providing feedback to the committees, for their information and corresponding actions.



# 55%

**OF VACANT** positions were covered with personnel already working in the Institution



“Nafinsa has a program to promote the development of talented young people, through professional practical experience and social service”

## Management Improvement Program

This program was concluded in December 2012, but follow-up was provided during 2013 to indicators from the different projects registered in the Administration System for the Management Improvement Program.

## Human Capital Development

### Talent detection and gender equity

Nafinsa has a model for managing human capital that is based on the development of competencies and the ongoing evaluation of personnel's potential. This made possible to cover 55% of vacant positions during 2013 with personnel already working in the Institution, thereby reducing recruitment costs and optimizing investment in personnel. Vacant positions were covered in line with public policies corresponding to government programs and designed to promote gender equity, with 37% of promotions awarded to women.

Also, Nafinsa has a program to promote the development of talented young people, through professional practical experience and social service. The Institution hired 23 of these young people for ongoing positions, representing 32% of those hired during 2013.

### Priority training programs

A training program was defined for strengthening on-the-job competencies, composed of both open and limited courses, and including technical, administrative and personal development topics.

In addition, various training, certification and individualized continuing education programs were carried out, assisting Nafinsa employees in becoming specialized in technical aspects specific to development banking.

## Other Human Capital topics

As a result of Nafinsa's policies on organizational efficiency, its organic structure has been maintained at similar levels during recent years. However, given the significant increase in the volume of business, it has been deemed necessary to strengthen this structure. During 2013 Nafinsa initiated the necessary steps with SHCP and SFP for the authorization of new job positions and the conversion of other positions. These modifications will contribute to serve better the target population in the coming years, without representing a significant impact on the Institution's financial situation.



## Corporate Governance

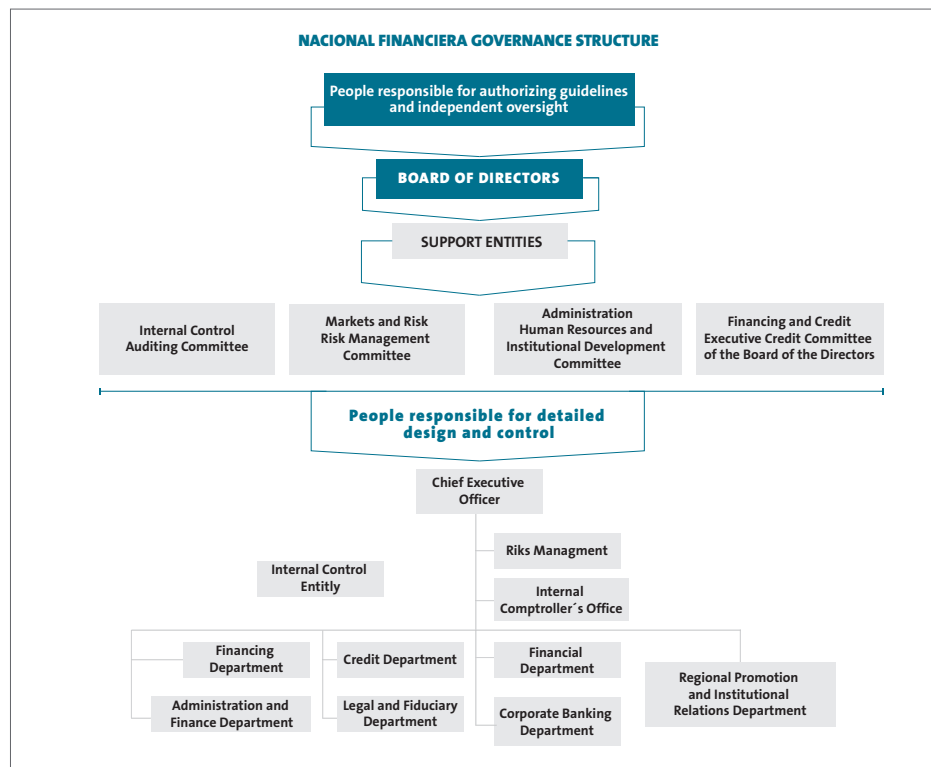
Nacional Financiera's corporate governance structure is based on its Internal Control System (SICOI), which is composed of a Board of Directors as the highest-level decision-making body, with its activities supported by different Committees, in which external members participate with the aim of achieving greater objectivity and healthy equilibrium in decision-making, while responding to the best practices in corporate governance. These committees analyze topics associated with the Institution's operations, and include:

- Committees associated with business operations, focused on financing, credit and venture capital. Especially worth mentioning is the structuring of the decisions made in these committees with participation by board members and independent experts. Two examples are: the Executive Credit Committee of the Board of Directors, and the Internal Credit Committee (CIC).
- Administrative, control and information committees. Created in compliance with official provisions or with the aim to institutionalize and strengthen the Bank's decisions. Especially worth noting is the Human Resources and Institutional Development Committee (CRHYDI).
- Advisory Councils. These councils were created by the Institution's Board of Directors for the purpose of building a regional network that links the needs of clients in every Mexican state, grouped together by



region. Representatives of the country's productive sectors and government entities responsible for promoting economic development in each of the country's areas participate actively in these Councils.

- Committees associated with internal control and risk management. Great progress has been made in this area, particularly in determining methodologies for assigning and controlling the Institution's operations portfolio, reserving fundamental decisions to the Board of Directors. Of particular importance are the Risk Management Committee (CAIR) and Auditing Committee.



### Internal Comptroller's Office

At Nafinsa, the objective of the Internal Control System is to assure that the Institution has, within its general operational strategies, ongoing evaluation mechanisms and standards to evaluate constantly specific operations on each process. It must verify that they are implemented with

reasonable security in three main categories: effectiveness and efficiency in operations, reliability of information, and compliance with regulatory policies and provisions. This is pursued through the following internal control components: control environment; risk management; activities involving control, information and communication; and supervision and oversight of operations.

Under this scheme, within the component of supervision and ongoing improvement, the Institution's operations are characterized by the incorporation of best corporate practices, particularly the establishment, monitoring and verification of adequate internal control mechanisms, through the Standardized Method of Internal Control Assessment (MESE), developed by the Internal Comptroller's Office.

Through the implementation of this tool, the following tasks are carried out: self-assessment of the control infrastructure in each area; updated registry of the Institution's manuals; timely monitoring delivery of regulatory reports to authorities, with the aim of preventing non-compliance and minimizing possible sanctions; and monitoring the timely attention to observations made by supervisory entities, through the monitoring of progress made in establishing solvency.

During 2013, the Institution, through the Internal Comptroller's Office, monitored the performance of the Institution's processes through the MESE, confirming that in general terms, the processes have an appropriate control mechanisms, in line with the application of Agendas of Control Routines (ARC), which constitute a self-management tool for assuring the adequate implementation of basic activities, in accordance with that established in the operations manual.

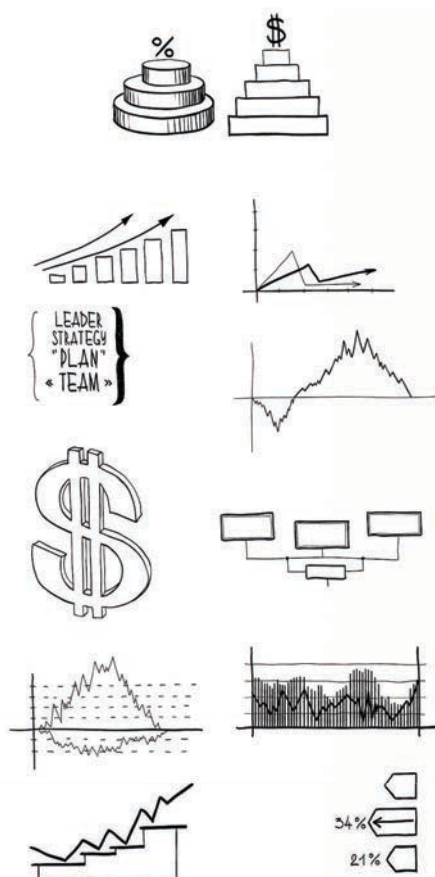
In addition the Internal Comptroller's Office supervises compliance with stipulations in the area of investment services. These stipulations regulate the provision of securities-related investment services to clients, including the establishment of standards for the securities profile and the distribution; the prevention of conflicts of interest; and in general, the prudential rules for the healthy market development, with the aim of strengthening its efficiency, transparency and depth, and to provide protection to the clients of these financial entities.



“Based on the 2013 Institutional Program, ten primary institutional risks that could affect the achievement of the goals in line with the Institution’s mandate were identified”

Based on the 2013 Institutional Program, authorized by the Board of Directors, ten primary institutional risks that could affect the achievement of the goals in line with the Institution’s mandate were identified and presented to the Risk Management and Auditing Committees. These decision-making were informed to the entities to monitor their quarterly performance in relation to the risks specified, even though there were no significant negative effects on goals and results that have been observed during the year.

Among other activities carried out during the year are those associated with the Prevention of Money Laundering and Financing of Terrorism, through which the Institution complies with the general provisions in Article 115 of the Law on Credit Institutions. One of the actions in this regard is the annual training provided to the Institution’s entire personnel regarding the prevention of illicit operations.



# Financial results

Despite the volatile climate and diminishing economic activity, Nafinsa surpassed its expectations for revenue, obtaining a net profit of 1,780 million pesos in 2013, equivalent to an 8.6% nominal return on capital. The Institution’s equity capital amounted to a total for the end of the year of 21,535 million pesos, representing 10% nominal growth against the total revenue of the previous year.

In addition the Institution’s financial situation demonstrates solid indicators, including the following:

Indicators	December 2013
Overdue loan portfolio / Own portfolio	1.46%
Reserves / Overdue loan portfolio	188.07%
Growth in financing to private sector (nominal)	4.4%
Financing granted to MSMEs / Total financing to private sector	83.4%
Regulatory capital ratio	15.36%

“Nafinsa surpassed its expectations for revenue, obtaining a net profit of 1,780 million pesos in 2013”

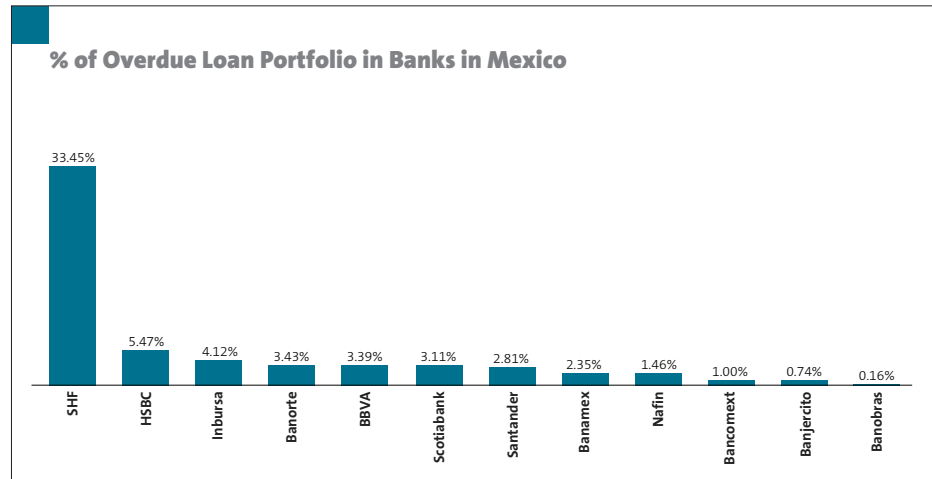
## Overdue loan portfolio at risk

At the end of December 2013, Nafinsa’s loan portfolio had risen to 118,170 million pesos, from which 1,731 million pesos correspond to the overdue loan portfolio, indicating a delinquency rate of 1.46%.

Exchange rate US Dollar (USD) to Mexican Peso was on 2012: \$12.9658 and on 2013: \$13.043



“At the end of December 2013, Nafinsa’s loan portfolio had risen to 118,170 million pesos”



With the exception of trust funds assisting housing development, the levels of the overdue loan portfolio achievements are primarily due to the continuity of the planning strategies implemented, with the following especially worth mentioning:

- Implementation of an early alert system, following supervisory visits with clients in the loan portfolio, facilitating timely decision-making.
- Direct payment collection, through programs in which visits are made to loan recipients that represent higher risk for loan recovery that may include negotiating payment proposals or restructuring loans, with prior authorization from the responsible entities.
- Strategies for applying preventive reserves and loan penalties, authorized by the Board of Directors.
- Greater control and closer monitoring in the management of the overdue portfolio, through the Recovery and Monitoring System and the Workout area, enabling the development of a close working relationship, negotiations and monitoring of the portfolio with significant overdue amounts, for both intermediaries and first-tier companies.
- Specific training for personnel responsible for supervision and monitoring of the first and second-tier portfolio and for personnel in portfolio recovery, to enhance the knowledge and skills directly associated with their functions (personnel competencies).

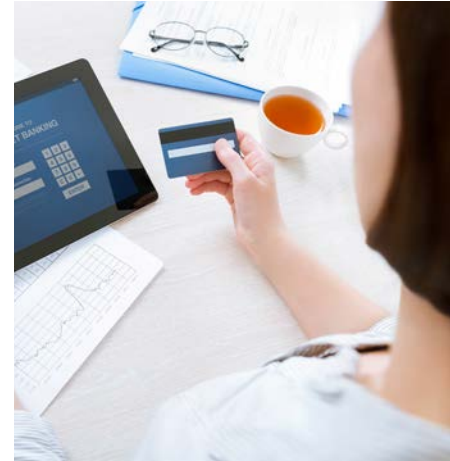
Nafinsa has brought together a team of executives specializing in payment collection, supervision of first and second-tier loans and projects, as well as selective and securities guarantees, which has enabled the Institution to limit and reduce delinquency rates, through both prevention and correction.

### Overall Situation

As of December 2013, the Institution's assets had reached a total of 359,289 million pesos, financed with liabilities in the amount of 337,754 million pesos, consisting of 176,758 million pesos from repo creditors, 133,000 million pesos corresponding to internal debt, and 27,996 million pesos corresponding to external debt and other liabilities.

In addition Nafinsa has a Financial Agent balance of 202,512 million pesos registered in off-balance sheet accounts, an amount representing a growth of 25,689 million pesos, equivalent to 15%. The balance for stand-by guarantees reached a level of 46,282 million pesos, with a 17% growth rate compared with the previous year, due to the dynamism and acceptance of Nafinsa's guarantees program.

An analysis of Nacional Financiera's financial statements for the 2013 period is provided in this report's Annex B, "Report on Consolidated, Audited Financial Statements with Subsidiaries, as of December 31, 2013."



“As of December 2013, the Institution's assets had reached a total of 359,289 million pesos”



# Internal Control Entity

The powers and attributes granted to Nafinsa's Internal Control Entity (OIC) are established by the Secretariat of Public Function, specified within its Internal Regulations. The activities carried out by the OIC have been oriented toward: anticipating and recommending improvements to the Institution's processes; identifying, evaluating and promoting risk management; strengthening the Internal Control System; and promoting transparency and accountability in institutional management.

During 2013, the OIC carried out its activities in accordance with a Risk Management Model aligned with strategic planning by Nacional Financiera and the Secretariat of Public Service (SFP), covering the following: stipulations by regulatory entities, critical processes, relevant information, and requests made by the Institution's Board of Directors, Auditing Committee and Commissioners. In this context, the OIC annually updates its strategic planning, the results are used to define a work program focused on high-priority aspects.

It is worth pointing out the OIC's support to the Institution in maintaining the Internal Control System harmonized with the general stipulations applicable to credit institutions, issued by the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores) and specified on the General Manual of Internal Control issued by the Secretariat of Public Service (SFP).

In this context the major lines of action are concentrated in the following aspects:

## 1. Audits, Evaluations and Diagnostic Assessments

During 2013, it should be noted the following activities: 17 audits, three evaluations of the Institutional Quality Management System's certified processes, and 11 diagnostic assessments focused on promoting improvements in management.

**Audits.** The audits conducted were emphasized on:

- Evaluating the internal control system, with the aim of specifying the degree of its contribution to risk identification, measurement and management, as well as assuring compliance with specific and institutional objectives.





- Evaluating the quality, amount and timeliness of financial information, for adequate decision-making and its delivery to the corresponding authorities.
- Verifying the implementation and adequate functioning of the mechanisms and activities that promote transparency and accountability in operations.
- Verifying that transactions are conducted in accordance with stipulations, actual policies and procedures established by the Institution.

In the reviews conducted, the people responsible from the different areas were informed of the results and added-value proposals for addressing the opportunity areas, strengthening the internal control system and promoting improvements in institutional management.

**Evaluations and Diagnostic Assessments.** The focus was on the following:

- Updating internal standards in the inventory registered with the Secretary of Public Service (SFP).
- Identifying initiatives for projects aimed at improving long-term management and/or in projects involving various institutions, in order to establish mechanisms for coordination and joint work and participation.
- Identifying areas of opportunity and proposals for improving the general administrative manuals; promoting the simplification of regulations through a review of their internal administration regulatory framework; learning more about savings through Personnel Services, Materials and Supplies, General Services and Movable and Immovable Goods, generated in the year, and evaluating the satisfaction of users with regard to high-impact procedures and services.
- Identifying the consistency of information reported through the Performance Evaluation System and promoting the strengthening of the results-oriented indicator matrixes, through services and monitoring of the recommendations for improvements, issued by the corresponding entities.

- Disseminating the Government's Citizen-Focused Organizational Culture Model, issued by the Secretariat of Public Service (SFP); analyzing the Institution's capacity for administering actions for change and identifying relevant actions and measures that contribute to the Institution's planning process for achieving improvement and transformation projects.
- Evaluating the process for developing and maintaining the Institution's computer systems, with the aim of identifying areas of opportunity, and when applicable, proposals for improving performance, as well as congruence with internal regulations and compatibility with the General Administrative Manual on Information and Communication Technologies and Information Security.
- Analyzing and detecting possible vulnerabilities in the external technologic infrastructure and the services provided and supported, which could represent risks for the Institution.



In addition the establishment of goals and objectives for 2013 was corroborated, considering strategic elements and monitoring, as well as mechanisms for adequate accountability. In terms of Digital Governance, actions were taken to promote and monitor the Institution's commitments (indicator of results from the implementation of the General Administrative Manual on Information and Communication Technologies and Information Security and Strategic Planning for Information and Communication Technologies for the Institution's priority projects).

In support of the Institutional Quality Management System, certified processes were audited, with the aim of corroborating its degree of maturity and contributing to maintain certification under international standard ISO 9001:2008.

## **2. Transparency and compliance with regulations**

The OIC continued to participate in an advisory capacity in the Institution's committees, particularly those focused on business management, analyzing and evaluating the Institution's important operations for achieving goals



and objectives. Also worth mentioning the OIC's participation in quality-focused operational committees, with the aim of promoting transparency, accountability and ongoing improvement.

As the Secretary of Nacional Financiera's Auditing Committee, the OIC carefully attended to its responsibilities, in accordance with the Committee's Work Program. Especially worth mentioning is that during 2013, in line with the Institution's efforts to use less paper, information for the OIC's sessions was distributed and available through a website, facilitating the efforts of Committee members to consult and analyze information.

The OIC also complied with its responsibilities as a member of the Institution's Information Committee, and with its designation as a public servant authorized by the Secretariat of Public Service to receive and process requests for access to information, in the terms specified in the Federal Law on Transparency and Access to Public Government Information, and to guarantee the spirit of this Law for the benefit of the citizenry.

### **3. Review and analysis of the Institution's financial information**

The Internal Auditing Office carried out various tasks to analyze and verify the figures in Nafinsa's individual and consolidated financial statements, through which the following was verified:

- a) That the variations identified on a monthly basis were reasonable and properly documented, and
- b) That the notes and reports with comments and analysis from administration on the results of operations and the financial situation, published quarterly, together with the basic consolidated financial statements, reveal sufficient information about the status of the various line items in the financial statements.

Coordination was maintained with the outside firms responsible for preparing reports on the financial statements of the Institution and the public trust funds instituted in Nafinsa, to ensure that their work and analysis of results adheres to stipulations in the terms of reference regulating public audits of such entities, as issued by the Secretariat of Public Service.

The previous work and results of audits conducted provided the necessary elements for backing the financial statements, reports and notes with regard to the adequacy of the process of generating financial information, as established by administration, and its capacity for generating reliable and timely information, in support of the decision-making process.

**4. Complaints, denouncements, disagreements, responsibilities, sanctions for suppliers, and disputes**

In this area, the OIC carried out investigations of complaints and denouncements presented, implementing procedures of administrative responsibility, in the events when such actions were merited; promoted compliance with the requirement that public servants declare their financial situation; addressed non-conformity on the part of suppliers in acquisitions processes, when merited; and implemented procedures for sanctioning suppliers for non-compliance with regulations, when necessary.





# **ANNEX A**

## Nacional Financiera – Important Figures

**Table 1**

NACIONAL FINANCIERA - IMPORTANT FIGURES  
AT YEAR'S END (MILLIONS OF PESOS)

Items	2007	2008	2009	2010	2011	2012	2013
Total Assets <sup>1</sup>	152,830	165,868	283,695	298,224	344,387	349,074	352,157
Financial Agent Portfolio	29,257	32,885	19,991	15,360	7,097	4,320	2,439
First-Tier Loan Portfolio	6,778	6,918	13,400	19,582	22,091	23,096	26,265
Second-Tier Loan Portfolio	38,274	50,949	77,822	87,980	88,032	87,929	91,904
Total Loan Portfolio	74,310	90,752	111,213	122,922	117,220	115,345	120,608
Equity Portfolio in other Companies	1,507	1,617	1,742	1,669	1,861	3,910	4,576
Securities Portfolio	1,104	1,542	1,545	1,443	1,534	1,436	1,462
Stock Market Investments	1,484	837	579	834	255	132	98
Domestic Debt	96,871	101,953	123,152	127,418	118,792	119,860	132,936
Foreign Debt	39,528	46,089	31,101	26,747	23,927	22,803	24,577
Deposits in National Currency	96,871	101,953	123,152	127,418	118,792	119,860	132,936
Preventive Reserves for Credit Risk	889	1,974	2,284	2,241	2,229	2,314	3,255
Total Liabilities	138,682	153,586	270,703	282,688	327,012	335,290	337,754
Equity Capital	13,415	12,282	12,992	15,536	17,375	19,611	21,535
Patrimony in Trusts	571,692	744,306	749,193	789,578	819,166	976,007	1,138,900
Guarantees	15,943	25,475	32,294	31,115	33,909	43,122	49,114
Net Profit (loss)	941	108	570	1,040	825	1,358	1,780
Regulatory Capital Ratio (%)	15.0	12.4	12.6	14.2	15.1	16.3	15.3

<sup>1</sup> Consolidated with Subsidiaries and UDIS Trusts

Exchange rate US Dollar (USD) to Mexican Peso was on 2012: \$12.9658 and on 2013: \$13.043

**Table 2**

Regional Financing to Private Sector By Second Tier, First Tier and Guarantees Classified by Region (Millions of Pesos- Number of Companies)											
Credit and Guarantees Jan-Dec 2012			Credit and Guarantees Jan-Dec 2013		Difference in% 2013 Vs 2012		Structure % Amount		Structure % Amount		
Amount	Companies		Amount	Companies	Amount	Companies	J - D 2012	J - D 2013	J - D 2012	j - D 2013	
<b>652,284</b>	<b>2,348,343</b>	<b>TOTAL</b>	<b>680,885</b>	<b>1,787,863</b>	<b>4.4</b>	<b>(23.9)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	
<b>44,692</b>	<b>305,150</b>	<b>NORTHWEST</b>	<b>40,267</b>	<b>190,747</b>	<b>(9.9)</b>	<b>(37.5)</b>	<b>6.9</b>	<b>5.9</b>	<b>13.0</b>	<b>10.7</b>	
9,918	62,033	B. California Norte	9,135	51,347	(7.9)	(17.2)	1.5	1.3	2.6	2.9	
1,948	17,386	B. California Sur	1,907	15,621	(2.1)	(10.2)	0.3	0.3	0.7	0.9	
21,908	117,483	Sinaloa	18,978	67,202	(13.4)	(42.8)	3.4	2.8	5.0	3.8	
10,917	108,248	Sonora	10,247	56,577	(6.1)	(47.7)	1.7	1.5	4.6	3.2	
<b>122,972</b>	<b>356,199</b>	<b>NORTHEAST</b>	<b>123,324</b>	<b>258,062</b>	<b>0.3</b>	<b>(27.6)</b>	<b>18.9</b>	<b>18.1</b>	<b>15.2</b>	<b>14.4</b>	
20,532	69,114	Coahuila	19,847	52,442	(3.3)	(24.1)	3.1	2.9	2.9	2.9	
15,005	52,931	Chihuahua	12,728	40,861	(15.2)	(22.8)	2.3	1.9	2.3	2.3	
5,753	37,348	Durango	5,793	25,645	0.7	(31.3)	0.9	0.9	1.6	1.4	
67,062	98,328	Nuevo León	70,782	66,770	5.5	(32.1)	10.3	10.4	4.2	3.7	
14,620	98,478	Tamaulipas	14,174	72,344	(3.0)	(26.5)	2.2	2.1	4.2	4.0	
<b>121,842</b>	<b>536,163</b>	<b>CENTRAL WEST</b>	<b>124,228</b>	<b>389,031</b>	<b>2.0</b>	<b>(27.4)</b>	<b>18.7</b>	<b>18.2</b>	<b>22.8</b>	<b>21.8</b>	
6,117	20,845	Aguascalientes	6,477	15,012	5.9	(28.0)	0.9	1.0	0.9	0.8	
3,251	30,396	Colima	2,985	16,928	(8.2)	(44.3)	0.5	0.4	1.3	0.9	
20,198	116,472	Guanajuato	21,972	89,249	8.8	(23.4)	3.1	3.2	5.0	5.0	
57,602	141,272	Jalisco	57,122	95,011	(0.8)	(32.7)	8.8	8.4	6.0	5.3	
16,904	89,825	Michoacán	17,150	67,657	1.5	(24.7)	2.6	2.5	3.8	3.8	
2,623	38,431	Nayarit	2,732	28,952	4.2	(24.7)	0.4	0.4	1.6	1.6	
9,702	69,390	San Luis Potosí	10,108	54,588	4.2	(21.3)	1.5	1.5	3.0	3.1	
5,444	29,532	Zacatecas	5,682	21,634	4.4	(26.7)	0.8	0.8	1.3	1.2	
<b>300,487</b>	<b>626,140</b>	<b>CENTRAL</b>	<b>330,720</b>	<b>503,069</b>	<b>10.1</b>	<b>(19.7)</b>	<b>46.1</b>	<b>48.6</b>	<b>26.7</b>	<b>28.1</b>	
178,963	85,249	D.F.	201,892	75,691	12.8	(11.2)	27.4	29.7	3.6	4.2	
5,855	60,765	Guerrero	5,509	49,536	(5.9)	(18.5)	0.9	0.8	2.6	2.8	
9,408	39,822	Hidalgo	10,198	37,848	8.4	(5.0)	1.4	1.5	1.7	2.1	
65,351	229,437	México	66,753	174,764	2.1	(23.8)	10.0	9.8	9.8	9.8	
6,938	46,557	Morelos	6,567	37,650	(5.3)	(19.1)	1.1	1.0	2.0	2.1	
11,610	34,105	Querétaro	16,242	25,181	39.9	(26.2)	1.8	2.4	1.5	1.4	
19,802	105,536	Puebla	20,809	80,554	5.1	(23.7)	3.0	3.1	4.5	4.5	
2,558	24,669	Tlaxcala	2,751	21,845	7.5	(11.4)	0.4	0.4	1.1	1.2	
<b>62,291</b>	<b>524,691</b>	<b>SOUTH - SOUTHEAST</b>	<b>62,346</b>	<b>446,954</b>	<b>0.1</b>	<b>(14.8)</b>	<b>9.5</b>	<b>9.2</b>	<b>22.3</b>	<b>25.0</b>	
4,911	24,826	Campeche	5,487	23,993	11.7	(3.4)	0.8	0.8	1.1	1.3	
8,481	76,884	Chiapas	8,817	71,689	4.0	(6.8)	1.3	1.3	3.3	4.0	
8,277	57,797	Oaxaca	8,254	51,388	(0.3)	(11.1)	1.3	1.2	2.5	2.9	
3,751	54,994	Quintana Roo	3,680	35,454	(1.9)	(35.5)	0.6	0.5	2.3	2.0	
8,744	54,256	Tabasco	8,908	55,741	1.9	2.7	1.3	1.3	2.3	3.1	
20,785	202,378	Veracruz	19,017	166,052	(8.5)	(17.9)	3.2	2.8	8.6	9.3	
7,341	53,556	Yucatán	8,181	42,637	11.4	(20.4)	1.1	1.2	2.3	2.4	

**Table 3**

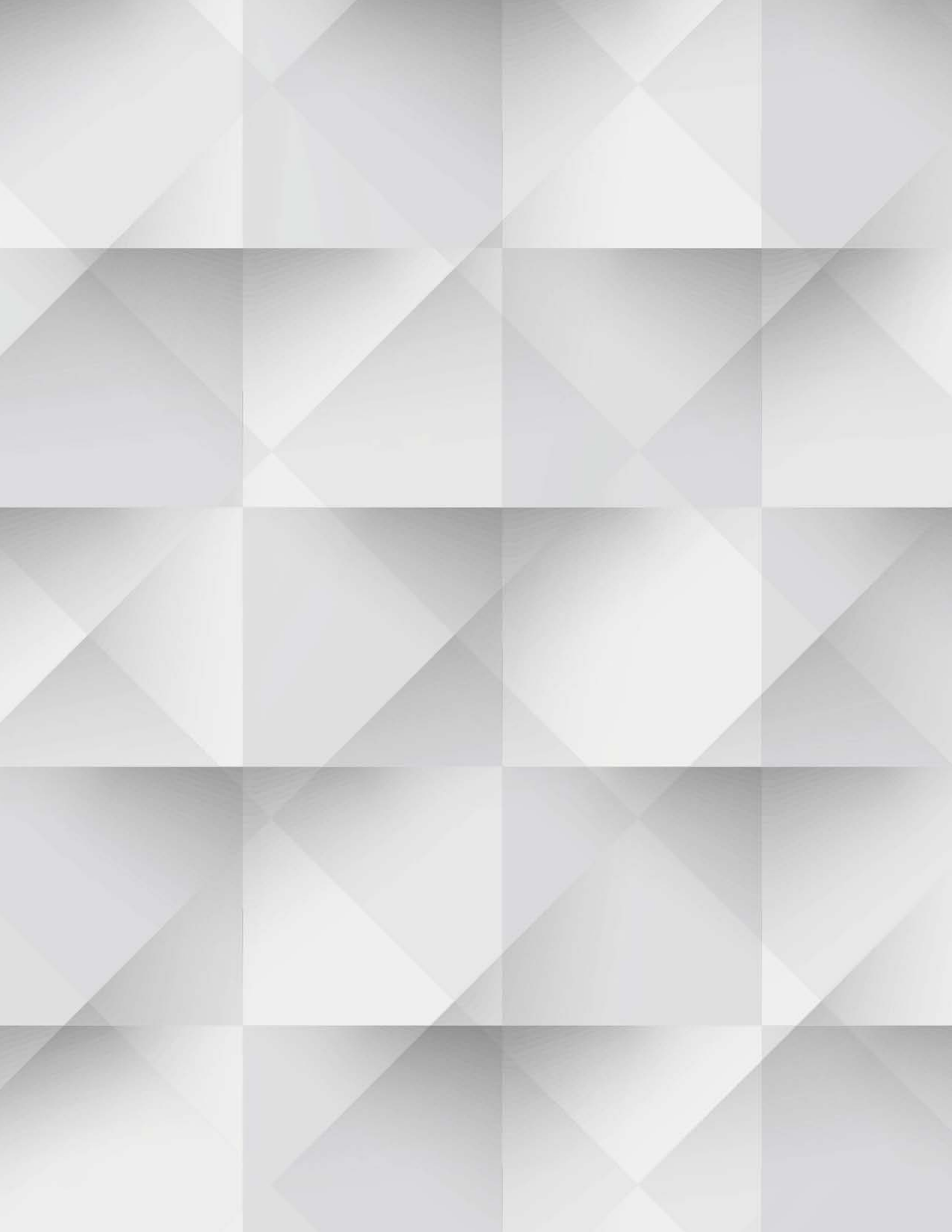
**DEPOSITS IN NATIONAL CURRENCY\***  
(Millions of Pesos)

Instrument	2007	2008	2009	2010	2011	2012	2013
Short-term BAs	80	80	80	80	80	80	0
Medium-term BAs	126	31	31	31	31	31	0
Long-term BAs	115	115	115	115	115	115	177
Banking Notes Acceptances	321	226	226	226	226	226	177
Stock Certificates	2,000	2,000	2,000	7,000	7,000	10,966	11,462
Naftii's	763	0	0	0	0	0	0
Nafin PGs	86,189	88,625	116,405	104,044	96,889	99,094	106,409
Zero Coupon Bonds	2	2	2	0	0	0	0
New Instruments	88,954	90,627	118,407	111,044	103,889	110,060	117,871
Diverse Deposits	53	57	9	12,577	1,223	393	212
Time Deposits	1,971	6,100	0	0	10,953	5,453	7,553
<b>TOTAL</b>	<b>91,299</b>	<b>97,010</b>	<b>118,642</b>	<b>123,847</b>	<b>116,291</b>	<b>116,132</b>	<b>125,813</b>

\* Interest not included.

**Table 4**

<b>TOTAL FOREIGN DEBT BALANCE AS OF DECEMBER 31 (Millions of US Dollars)</b>							
<b>Item</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
I. Direct Debt	3,594.0	3,309.6	2,367.8	2,155.5	1,709.2	1,755.3	1,876.2
A. Certificates of Deposit (London)	610.0	693.3	639	778	924	980	985
B. Multilateral Entities	2,760	2,360	1,521	1,236	504	330	185
C. Private Banks, Eximbanks and Suppliers	224.0	256.7	207.6	141.5	281.2	445.3	706.2
II. Total Guaranteed Debt	0	0	0	0	0	0	0
Total	3,594.0	3,309.6	2,367.8	2,155.5	1,709.2	1,755.3	1,876.2



## **ANNEX B**

# Report on Consolidated, Audited Financial Statements with Subsidiaries, as of December 31, 2013



**NACIONAL FINANCIERA, S. N. C.,  
Development Banking Institution and Subsidiaries**

**INDEPENDENT AUDITORS' REPORT  
AND CONSOLIDATED FINANCIAL STATEMENTS  
AT DECEMBER 31, 2013 AND 2012**

**TABLE OF CONTENTS**

1. Independent auditors' report
- Financial statements and their notes
2. Consolidated balance sheets
3. Consolidated statements of income
4. Consolidated statements of changes in stockholders' equity
5. Consolidated statements of cash flows
6. Notes to the consolidated financial statements



## 1. INDEPENDENT AUDITORS' REPORT

**To the National Banking and Securities Commission**

**To the Ministry of Public Function**

**To the Board of Directors of  
Nacional Financiera, S.N.C., Development Banking Institution**

### **Scope of the review**

We have audited the accompanying consolidated financial statements of **Nacional Financiera, S.N.C., Development Banking Institution and Subsidiaries** (the Institution), which include the consolidated balance sheet at December 31, 2013, and the consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended, and a summary of the significant accounting policies and other explanatory information.

### **Management's responsibility on the consolidated financial statements**

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

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement in the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institution's preparation and *fair presentation* of the financial statements in order to design adequate audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements of **Nacional Financiera, S.N.C., Development Banking Institution and Subsidiaries**, at December 31, 2013, have been prepared, in all material respects, in conformity with the General Provisions applicable to Lending Institutions, issued by the Mexican National Banking and Securities Commission.

### Emphasis paragraphs:

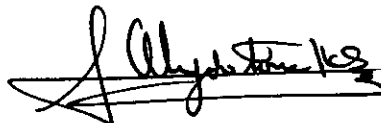
Though the foregoing has no effect on our opinion, we hereby draw attention to the following aspects:

1. Note 24 to the consolidated financial statements specifies that the Institution realized the payment in the amount of 400 million Mexican pesos on December 3, 2013, in conformity with the indications in official letter number 102-B-126, dated November 29, 2013, issued by the Undersecretary of Ministry and Public Credit, whereby the Federal Government instructs the Institution to realize a payment under the juridical nature of use for furnishing a sovereign guarantee of the Federal Government. That use was realized with a charge to the Institution's income and is shown in the "Other operating revenues (disbursements)" in the consolidated statements of income of 2013.
2. As discussed in Notes 3.11 and .10 to the consolidated financial statements, beginning December 2013, the Institution applied the new loan portfolio rating methodology established by the Mexican National Banking and Securities Commission, whose opening effect of adoption generated a decrease in the preventive estimate for credit risks in the amount of 904 million Mexican pesos. However, the Institution prudentially decided to create additional reserves in the amount of 686 million Mexican pesos, foreseeing that it should increase that estimate in fiscal 2014. During fiscal 2013, the increase in the preventive estimate for credit risks amounted to 1 billion 612 million Mexican pesos.

### Other issues

The consolidated financial statements of Nacional Financiera, S.N.C., Development Banking Institution and Subsidiaries, applicable to the year ended December 31, 2012, were audited by other auditors, who issued an unqualified opinion on those consolidated financial statements on February 22, 2013.

Gossler, S. C.



**Alejandro Torres Hernandez**  
Certified Public Accountant

**CONSOLIDATED BALANCE SHEETS**  
**AT DECEMBER 31, 2013 AND 2012**  
 (Millions of Mexican pesos)  
 (Notes 1 to 3)

	<u>2013</u>	<u>2012</u>		<u>2013</u>	<u>2012</u>
<b>ASSETS</b>			<b>LIABILITIES</b>		
Liquid assets (Note 5)	\$ 17,454	\$19,435	Traditional deposits:		
Margin Accounts	1	-	Term deposits: (Note 16)		
Investments in securities: (Note 6)			Money market	\$108,913	\$101,857
Trading securities	190,458	191,885	Negotiable instruments issued:		
Available-for-sale securities	2,736	2,257	Bank bonds (Note 17)	11,591	11,084
Held-to-maturity securities	12,555	12,214	Securities outstanding abroad (Note 18)	12,891	12,701
	<u>205,749</u>	<u>206,356</u>		<u>133,395</u>	<u>125,642</u>
Derivatives: (Note 8)			Interbank loans and loans for other agencies: (Note 19)		
Trading purposes	13	54	Demand deposits	5,193	1,041
Designated as hedges	601	383	Short-term	5,115	4,241
	<u>614</u>	<u>437</u>	Long-term	16,882	11,531
Valuation adjustment on hedges of financial assets (Note 8)	85	73	Payables under repurchase agreements (Note 7)	176,758	189,290
Current loan portfolio:			Derivatives: (Note 8)		
Commercial credits:			Trading purposes	19	59
Business or commercial activity	23,301	17,105	Valuation adjustment on hedges of financial liabilities (Note 8)	50	120
Financial entities	86,691	84,606	Other payables: (Note 20)		
State-owned entities	6,278	9,004	Taxes on earnings payable	521	534
	<u>116,270</u>	<u>110,715</u>	Employee profit sharing payable	152	164
Consumer lending	4	2	Payables on liquidation of trades	681	348
Housing lending	164	159	Payables under memorandum accounts	208	-
Credits granted as a Federal Government	2,439	4,320	Accrued liabilities and other payables	484	474
Total current loan portfolio	<u>118,877</u>	<u>115,196</u>		<u>2,046</u>	<u>1,520</u>
Nonperforming loan portfolio:			Deferred taxes and PTU, net (Note 22)	264	209
Commercial credits:			Deferred credits and advance payments from customers	50	44
Business or commercial activity	11	18	Total liabilities	<u>329,464</u>	<u>328,415</u>
Financial entities	1,705	108			
	<u>1,716</u>	<u>126</u>	<b>STOCKHOLDERS' EQUITY (Note 23)</b>		
Consumer lending	3	3	Paid-in capital:		
Housing lending	12	20	Capital stock	8,805	8,805
Total nonperforming loan portfolio	<u>1,731</u>	<u>149</u>	Contributions for future capital increases formalized by the Board of Directors	1,950	1,950
Loan portfolio (Note 9)	<u>120,608</u>	<u>115,345</u>	Paid stock premium	8,922	8,922
Preventive estimate for loan risks (Note 10)	<u>(3,504)</u>	<u>(2,516)</u>		<u>19,677</u>	<u>19,677</u>
Loan portfolio, net	<u>117,104</u>	<u>112,829</u>	Capital gains:		
Other receivables, net: (Note 11)	2,772	2,501	Capital reserves	1,730	1,730
Reposessed assets, net (Note 12)	23	27	Prior year losses	(1,917)	(3,275)
Property, plant and equipment, net (Note 13)	1,582	1,623	Gain on valuation of available-for-sale securities	14	51
Other investments (Note 14)	30	31	Accumulated effect on translation	34	34
Permanent investments, net (note 15)	5,617	4,675	Effects of valuation in associate and affiliate companies	217	36
Other assets:			Net income	1,780	1,358
Deferred charges, prepaid expenses and intangibles	1,126	1,087		<u>1,858</u>	<u>(66)</u>
Total assets	<u>\$352,157</u>	<u>\$349,074</u>	Non-holding company equity	1,158	1,048
			Total stockholder's equity	22,693	20,659
			Total liabilities and stockholders' equity	<u>\$352,157</u>	<u>\$349,074</u>

**Memorandum accounts**

	<u>2013</u>	<u>2012</u>
Guarantees granted (Note 25)	\$ 565	\$ 518
Contingent assets and liabilities (Note 25)	\$ 36,858	\$ 31,533
Credit commitments (Note 25)	\$ 66,526	\$ 50,503
Assets placed in trust or mandate (Note 26)		
Trusts	\$ 916,528	\$ 759,227
Mandates	19,859	39,957
	<u>\$ 936,387</u>	<u>\$ 799,184</u>
Federal Government Financial Agent (Note 26)		
Assets in custody or administration	\$ 202,512	\$ 176,823
Collateral received by the entity	\$ 381,265	\$ 425,240
Collateral received and sold or pledged as a guarantee by the entity	\$ 13,208	\$ 74,832
Investment bank third party trading, net	\$ 13,208	\$ 74,832
Uncollected accrued interest derived from the non-performing loan portfolio	\$ 102,289	\$ 86,113
Other memorandum accounts (Note 27)	\$ 144	\$ 56
	<u>\$ 332,577</u>	<u>\$ 274,842</u>

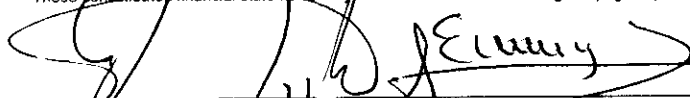
These consolidated balance sheets were prepared in conformity with the Accounting Criteria for Lending Institutions issued by the Mexican National Banking and Securities Commission, in accordance with the provisions of Articles 99, 101, and 102 of the Lending Institutions Activities Act. Those criteria, whose observance is general and mandatory, were applied on a consistent basis. The transactions carried out by the Institution and reflected up to the dates referred to above were carried out and valued in accordance with sound practices and the pertinent legal and administrative provisions.

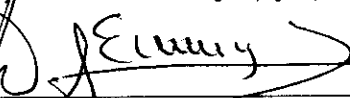
The historical balance of capital stock amounts to \$2,390.


These consolidated balance sheets were approved by the Board of Directors, under the responsibility of the directors who sign them.


The Head of the Internal Audit Area hereby signs these consolidated financial statements based on the results of the reviews performed to date, which have allows for verifying the sufficiency of the process for generating financial information established by the Institutions Management and its capacity to generate reliable information.

These consolidated financial statements may be consulted on the following webpage <http://www.nafin.com/portal/contenido/sobre-nafinsa/informacion-financiera/informacion.html>.

  
 Dr. Jacques Rogozinski Schitlman  
 Chief Executive Officer

  
 Lic. Jorge Espinosa de los Reyes Dávila  
 Associate General Director of Administration and Finance

  
 C. P. Leticia Margarita Pérez Gómez  
 Head of the Internal Audit Area

  
 C. P. Sergio Navarrete Reyes  
 Director of Accounting and Budget

The accompanying notes are part of these consolidated financial statements.

**NACIONAL FINANCIERA, S. N. C.,**  
**Development Banking Institution and Subsidiaries**  
 Av. Insurgentes Sur 1971, Col. Guadalupe Inn, C.P. 01020 México, D.F.

**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**  
 (Millions of Mexican pesos)  
 (Notes 1 to 3)

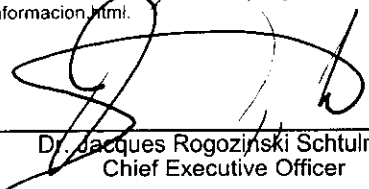
	<u>2013</u>	<u>2012</u>
Interest income (Note 24)	\$ 19,536	\$ 22,091
Interest expenses (Note 24)	<u>(16,751)</u>	<u>(19,150)</u>
Financial margin	2,785	2,941
Preventive estimate for loan risks	<u>(1,394)</u>	<u>(219)</u>
Financial margin adjusted by credit risks	1,391	2,722
Fees and rates income	2,233	1,794
Fees and rates expense	(191)	(119)
Gain on brokerage (Note 24)	1,524	1,021
Other operating income (expenses) (Note 24)	176	(1,377)
Administration and promotion expenses	<u>(2,911)</u>	<u>(2,251)</u>
Operating income	2,222	1,790
Equity in losses of unconsolidated subsidiaries and associates	<u>(9)</u>	<u>(11)</u>
Income before taxes on earnings	2,213	1,779
Taxes on earning due (Note 22)	(441)	(427)
Deferred taxes on earning, net (Note 22)	<u>30</u>	<u>43</u>
Net income	1,802	1,395
Non-holding company equity	<u>(22)</u>	<u>(37)</u>
Net income including controlling company equity	<u>\$ 1,780</u>	<u>\$ 1,358</u>

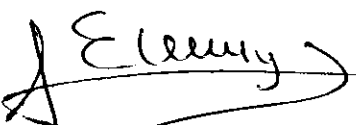
These consolidated statements of income were prepared in conformity with the Accounting Criteria for Lending Institutions issued by the Mexican National Banking and Securities Commission, in accordance with the provisions of Articles 99, 101, and 102 of the Lending Institutions Activities Act. Those criteria, whose observance is general and mandatory, were applied on a consistent basis. All the income and expenditures derived from the transactions carried out by the Institution and reflected during the periods referred to above were carried out and valued in accordance with sound practices and the pertinent legal and administrative provisions.

These Consolidated Statements of Income were approved by the Board of Directors, under the responsibility of the Directors who sign them.


The Head of the Internal Audit Area hereby signs these consolidated financial statements based on the results of the reviews performed to date, which have allows for verifying the sufficiency of the process for generating financial information established by the Institutions Management and its capacity to generate reliable information.

These consolidated financial statements may be consulted on the following webpage <http://www.nafin.com/portalInf/content/sobre-nafinsa/informacion-financiera/informacion.html>.

  
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 Chief Executive Officer

  
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 Director of Accounting and Budget

The accompanying notes are part of these consolidated financial statements.

**NACIONAL FINANCIERA, S. N. C.,**  
**Development Banking Institution and Subsidiaries**  
 Av. Insurgentes Sur 1971, Col. Guadalupe Inn, C.P. 01020 México, D.F.

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**  
 (Millions of Mexican pesos)  
 (Notes 1 to 3)

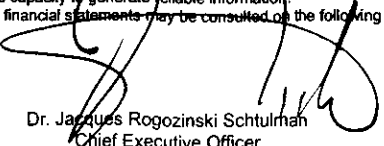
	Capital contributions					Capital gains					Total stockholder equity
	Capital stock	Contributions for future capital increases formalized by the Board of Directors	Paid stock premium	Capital reserves	Prior year losses	Gain on valuation of Available for-sale securities	Accumulated effect on translation	Effects of valuation in associate and affiliate companies	Net income	Non-holding company equity	
Balances as of Saturday, December 31, 2011	\$ 8,805	\$ 1,000	\$ 8,922	\$ 1,730	\$ (4,128)	\$ 57	\$ 130	\$ 34	\$ 825	\$ 974	\$ 18,342
Changes inherent to decisions made by the stockholders	-	-	-	-	-	-	-	-	-	-	-
Contributions for future capital increases	-	950	-	-	-	-	-	-	-	-	950
Appropriation of prior year income	-	-	-	-	825	-	-	-	(825)	-	-
	-	950	-	-	825	-	-	-	(825)	-	950
Changes inherent to recognition of comprehensive income - Net income (loss)	-	-	-	-	-	-	-	-	1,395	-	1,395
Gain or loss on valuation of associated and affiliate companies	-	-	-	-	28	-	-	2	-	-	30
Gain or loss on valuation available-for-sale securities	-	-	-	-	-	(6)	-	-	-	-	(6)
Accumulated effect on translation	-	-	-	-	-	-	(96)	-	-	-	(96)
Non-holding company equity	-	-	-	-	-	-	-	-	-	74	74
Total movements inherent to the recognition of comprehensive income	-	-	-	-	28	(6)	(96)	2	1,358	74	1,358
Balances as of December 31, 2012	8,805	1,950	8,922	1,730	(3,275)	51	34	36	1,358	1,048	20,662
Changes inherent to decisions made by the stockholders	-	-	-	-	-	-	-	-	-	-	-
Appropriation of prior year income	-	-	-	-	1,358	-	-	-	(1,358)	-	-
	-	-	-	-	1,358	-	-	-	(1,358)	-	-
Changes inherent to recognition of comprehensive income - Net income (loss)	-	-	-	-	-	-	-	-	1,802	-	1,802
Gain or loss on valuation of associated and affiliate companies	-	-	-	-	-	-	-	181	-	-	181
Gain or loss on valuation available-for-sale securities	-	-	-	-	-	(37)	-	-	-	-	(37)
Non-holding company equity	-	-	-	-	-	-	-	-	(22)	110	88
Total movements inherent to the recognition of comprehensive income	-	-	-	-	-	(37)	-	181	1,780	110	2,034
Balances as of December 31, 2013	\$ 8,805	\$ 1,950	\$ 8,922	\$ 1,730	\$ (1,917)	\$ 14	\$ 34	\$ 217	\$ 1,780	\$ 1,158	\$ 22,662

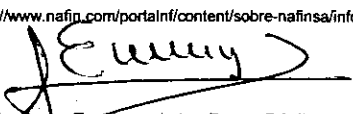
These consolidated statements of changes in stockholders' equity were prepared in conformity with the Accounting Criteria for Lending Institutions issued by the Mexican National Banking and Securities Commission, in accordance with the provisions of Articles 99, 101, and 102 of the Lending Institutions Activities Act. Those criteria, whose observance is general and mandatory, were applied on a consistent basis. All the movements in the stockholders' equity accounts derived from the transactions carried out by the Institution during the periods referred to above were carried out and valued in accordance with sound practices and the pertinent legal and administrative provisions.

These statements of changes in stockholders' equity will be approved by the Board of Directors, under the responsibility of the directors who subscribe them.

The Head of the Internal Audit Area hereby signs these consolidated financial statements based on the results of the reviews performed to date, which have allows for verifying the sufficiency of the process for generating financial information established by the Institutions Management and its capacity to generate reliable information.

These consolidated financial statements may be consulted on the following webpage <http://www.nafin.com/portalfin/content/sobre-nafinsa/informacion-financiera/informacion.html>

  
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 Associate General Director of Administration and Finance

  
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 C. P. Sergio Navarrete Reyes  
 Director of Accounting and Budget

The accompanying notes are part of these consolidated financial statements.

**NACIONAL FINANCIERA, S. N. C.,**  
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 Av. Insurgentes Sur 1971, Col. Guadalupe Inn, C.P. 01020 México, D.F.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**  
 (Millions of Mexican pesos)  
 (Notes 1 to 3)


	<u>2013</u>	<u>2012</u>
Net income	\$ 1,780	\$ 1,358
Adjustments on items that do not imply cash flow:		
Allowance for uncollectible or doubtful accounts	90	22
Depreciation of property, furniture and equipment	34	36
Provisions	1,204	(594)
Taxes on earnings due and deferred	411	384
Equity in losses of unconsolidated subsidiaries and associates	9	11
Others	197	161
	<u>1,945</u>	<u>20</u>
<b>OPERATING ACTIVITIES:</b>		
Change in margin accounts	(1)	-
Change in investments in securities	478	(6,281)
Change in receivables under repurchase agreements (repos)	-	123
Change in derivatives (asset)	5,959	811
Change in loan portfolio (net)	(5,161)	1,828
Change in other operating assets	(67)	206
Change in traditional deposits	6,942	(2,254)
Change in interbank loans and loans for other agencies-	5,067	(190)
Change in payables under repurchase agreements	(12,532)	10,894
Change in derivatives (liability)	(5,787)	(790)
Change in other operating liabilities	(164)	(3,037)
Payment of taxes on earnings	(367)	(380)
Net cash flows from operating activities	<u>(5,633)</u>	<u>930</u>
<b>INVESTING ACTIVITIES:</b>		
Collection on sale of property, furniture and equipment	9	-
Payment on acquisition of property, furniture and equipment	(2)	114
Collections on disposition of subsidiaries and associates	-	(1)
Payments on acquisition of subsidiaries and associates	(755)	(2,134)
Net cash flows from investing activities	<u>(748)</u>	<u>(2,021)</u>
<b>FINANCING ACTIVITIES:</b>		
Contribution for future capital stock increases	-	950
Net cash flows from financing activities	<u>-</u>	<u>950</u>
Net (decrease) increase in cash and cash equivalents	(2,656)	1,237
Effects of changes in the value of cash and cash equivalents	675	455
Cash and cash equivalents at beginning of period	19,435	17,743
Cash and cash equivalents at end of period	<u>\$ 17,454</u>	<u>\$ 19,435</u>

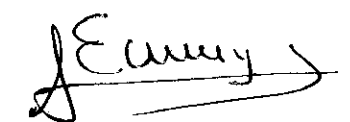
These consolidated statements of cash flows were prepared in conformity with the Accounting Criteria for Lending Institutions issued by the Mexican National Banking and Securities Commission, in accordance with the provisions of Articles 99, 101, and 102 of the Lending Institutions Activities Act. Those criteria, whose observance is general and mandatory, were applied on a consistent basis. All the cash inflows and cash outflows derived from the transactions carried out by the Institution and reflected during the periods referred to above were carried out and valued in accordance with sound practices and the pertinent legal and administrative provisions.


These Consolidated Statements of cash flows were approved by the Board of Directors, under the responsibility of the Directors who subscribe them.


The Head of the Internal Audit Area hereby signs these consolidated financial statements based on the results of the reviews performed to date, which have allowed for verifying the sufficiency of the process for generating financial information established by the Institutions Management and its capacity to generate reliable information.

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Av. Insurgentes Sur 1971, Col. Guadalupe Inn, C.P. 01020 México, D.F.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AT DECEMBER 31, 2013 AND 2012**  
**(Millions of Mexican pesos)**

**NOTE 1. ORGANIZATION AND BUSINESS**

***Organization***

Nacional Financiera, S.N.C. (the Institution) was organized as an implementing instrument of significant socioeconomic transformations, in order to promote the securities market and foster the mobilization of the financial resources of Mexico, pursuant to the decree dated June 30, 1934.

It is a Development Banking Institution, which operates in conformity with the legal system of its own Internal Regulations, the Lending Institutions Act, and by general Provisions applicable to lending institutions (the Provisions) issued by the National Banking and Securities Commission (the Commission).

***Business***

Contribute to the development of companies, by providing them with access to financing products, training, technical assistance and information, in order to foster competitiveness and productive investment; promote the development of strategic sustainable projects for the country on an orderly and centered basis, under schemes that allow for correcting market failures in coordination with other development banks; further regional and sectoral development of the country, particularly in the states with less relative development, through an offer of differentiated products, in accordance with the productive vocations of each region; develop financial markets and risk capital industry in the country so that they may serve as sources of financing for enterprising business people and small and medium-sized companies; Be an efficiently managed Institution, based on a consolidated corporate government structure that assures an ongoing, transparent operation, as well as the preservation of its capital in real terms, in order for it not to represent a financial burden for the Federal Government.

The Institution realizes its operations by following Development financing criteria, and channeling its resources mainly through first level banking and non-banking financial intermediaries. The main sources of resources of the Institution come from loans from international development institutions such as the International Reconstruction and Development Bank (World Bank) and the Inter-American Development Bank (IDB), lines of credit from foreign banks and the placement of securities on international and domestic markets.

At December 31, 2013, the Institution's operating structure abroad includes two branches, one in London (England) and the other in the Grand Cayman Island.

Article 10 of the Institution's Internal Rules sets forth that the Federal Government will be liable at all times for the transactions carried out by the Institution with individuals and legal entities, those carried out with private, governmental or inter-governmental private institutions, and the deposits received as set forth in Articles 7 and 8 in the terms of the Law itself.

## NOTE 2. BASIS OF PRESENTATION

1. **Consolidation of financial statements** - The consolidated financial statements include the financial Institution and those of its subsidiaries over which it has control. In addition, its shareholdings in its capital stock are shown below:

	% of equity participation shares	
	2013	2012
Financial activities:		
Operadora de Fondos Nafinsa, S.A. de C.V.	99.99	99.99
Non-financial activities:		
Corporacion Mexicana de Inversiones de Capital, S.A. de C.V.	70.01	66.36
Trusts:		
Sales program of securities directly to the public	100	100
ATISBOS	-	100
Trust 11480 Fund for Risk Participation	100	100
Complementary services:		
Plaza Insurgentes Sur, S.A. de C.V.	99.99	99.99
Pissa Servicios Corporativos, S.A. de C.V. (in liquidation)	99.99	99.99

Intercompany balances and transactions have been eliminated in these consolidated financial statements.

The main purpose of the subsidiaries, financial companies, non-financial companies, and complementary service companies of the Institution) are as follows:

*Operadora de Fondos Nafinsa, S.A. de C.V.*

Contribute to the development of financial markets, by encouraging small and medium-sized investors to access the securities market.

*Corporacion Mexicana de Inversiones de Capital, S.A. de C.V.*

Invest in Private Capital funds, as well as foster productive investment in Mexico in the medium and long-term, by encouraging the institutionalization, development, and competitiveness of the small and medium-sized company (S&ME). This company was incorporated with part of the stock portfolio of some development banking institutions.

*Trust Program of Security Sales Directly to the Public*

Manage the trust funds in order to carry out the necessary acts to develop and implement the Security Sales Directly to the Public, in conformity with the Operating Rules that, if applicable, are authorized by the Technical Committee.

*ATISBOS Trust -*

Manage the trust resources in order for the necessary acts to be carried out to normalize the company named Atisbos, S. A., and transfer its patrimony to the trustor or the person indicated by the Technical Committee. This trust met its objectives and was extinguished in July 2013.

*Trust 11480 Fund for Risk Participation -*

In order to have the vehicles that allow for meeting the institutional objectives related to the access of micro, small, and medium-sized companies of the country (MI S&ME) to formal financing, the institution increase the guaranty program, whereby it shares the credit risk with banking and non-banking financial institutions (intermediaries) determined by the Technical Committee, which those intermediaries grant to domestic companies and individuals.

The gain (loss) on this trust for the years ended December 31, 2013 and 2012 amounts to \$1,466 and \$1,225, respectively. The effect of the main revenue of this trust is reflected in the Fees and tariffs collected in the consolidated statement of income. These gains do not contemplate operating expenses, since the Institution, in its capacity as a Trustor, renders its support with human resources, informatics, and materials, insofar as it does not have its own organizational structure.

*Plaza Insurgentes Sur, S.A. de C.V.*

Render comprehensive services to its main stockholder (the Institution), by leasing spaces and furniture, as well as adapting offices with preventive, corrective maintenance programs to the real property infrastructure.

*Pissa Servicios Corporativos, S.A. de C.V. (in liquidation) -*

Render complementary and auxiliary services in managing and realizing the corporate objective of any National Lending Institution that is or eventually becomes its stockholder, as well as auxiliary companies and trusts thereof.

2. **Comprehensive income** - It is modification of stockholders' equity for items that are not distributions and movements of paid-in capital during the year. It consists of net income for the year plus other items that represent a gain for the same period, which are presented directly in stockholders' equity without affecting the consolidated statements of income.

### NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

The Institution's significant accounting policies concur with the accounting criteria set forth by the Commission, which are included in the Provisions, their circulars, as well as general official and particular letters that it has issued for that purpose. Those criteria require that Management realize certain estimates and use certain assumptions to determine the valuation of some items included in the consolidated financial statements, as well as to make some disclosures that are required to be presented therein. Even when they can eventually differ from their final effect, Management considers that the estimates and assumptions used were adequate under the current circumstances.

Accounting changes.

Beginning January 1, 2013, the institution suppletorily adopted the following Financial Reporting Standards (FRS):

- FRS B-8 - "Consolidated or combined financial statements"
- FRS C-7 - "Investments in associates, joint ventures and other permanent investments"
- FRS C-21 - "Joint control agreements"

The significant accounting criteria followed by the Institution are summarized below:

1. **Recognition of the impact of inflation on the financial information** - Accumulated inflation of the last three prior annual fiscal years at December 31, 2013 and 2012 is 11.84% and 11.66%, respectively; therefore, the economic environment qualifies as non-inflationary in both years. The inflation percentages of the years ended at December 31, 2013 and 2012 were 3.78% and 3.91%, respectively. The financial statements recognize the impact of inflation up to December 31, 2007.

2. **Liquid assets** - These assets are valued at their nominal valued and with respect to foreign currency, they are valued at their fair value based on the year end quote.

The currencies acquired that are agreed upon to liquidate on a date subsequent to the realization of the buy and sell transaction are recognized as a restricted asset (foreign currency receivable). Foreign currency sold is recorded as a credit to liquid assets (foreign currency payable). The offsetting entry is recorded in a debit clearing account when a sale is realized and a credit clearing account when a purchase is realized.

For purposes of presentation of the financial information, foreign currency clearing accounts receivable and deliverable are offset and presented in the item of other receivables (net) or other payables, as applicable.

This item also includes interbank lending transactions agreed upon in a term less than or equal to 3 business days, as well as other liquid assets such as correspondent banks, sight drafts, and coined precious metals.

3. **Margin accounts** - The so-called margin accounts (security deposits) for derivative financial instrument trading on recognized markets are recognized at nominal face valor. Security deposits are intended to assure compliance with obligations applicable to derivatives carried out on recognized markets and apply to the opening margin and subsequent contributions or retirements realized in the duration of the respective contracts.

4. **Valuation of foreign currency** - The Institution maintains accounting records by type of foreign currency in assets and liabilities contracted in a foreign currency, which are valued at the fixed exchange rate published by the Bank of Mexico (BANXICO) in the Official Daily Gazette on the business day subsequent to the date of the transaction or preparation of the financial statements, as applicable.
5. **Investments in securities** - The book entry and valuation of investments in securities are subject to the following guidelines:

***Trading securities:***

These securities deal with the Institution's own positions acquired with the intent of selling them and obtaining gains from price differences resulting from short-term trading operations. Those securities are realized with market participants.

At the time of their acquisition, they are initially recognized at their fair value (which, if applicable, includes the discount or surcharge) and corresponds to the price agreed upon. They are subsequently valued at fair value, by applying market values furnished by an independent pricing service, authorized by the Commission. The book effect of this valuation is recorded in income for the year. Fair value of debt securities includes both the capital component and interest accrued on the securities.

On the date sold, the gain or loss is recognized on the trade for the spread between its carrying value and the sum of the considerations received.

Cash dividends collected on the net equity instruments are recognized in income for the year at the time at which the right to receive the payment thereof is generated.

***Available-for-sale securities:***

These are those debt securities and net equity instruments, whose intent is intended to obtain earnings derived from the price differences resulting from short-term trading operations. In the case of debt securities, is there any intent nor capacity to hold them to maturity; therefore, it represents a residual category, that is, they are acquired with an intent other than that of trading securities or held-to-maturity securities, respectively.

At the time of their acquisition, they are initially recognized at their fair value, which corresponds to the price agreed upon. They are subsequently valued at fair value, by applying market values furnished by an independent pricing service, authorized by the Commission. The book effect of this valuation is recorded in stockholders' equity. Fair value of debt securities includes both the capital component and interest accrued on the securities.

On the date sold, the gain or loss is recognized on the trade for the spread between its carrying value and the sum of the considerations received and the accumulated effect of valuation that has been recognized in stockholders' equity.

Cash dividends collected on the net equity instruments are recognized in income for the year at the time at which the right to receive the payment thereof is generated.

### ***Held-to-maturity securities***

These are those debt securities, whose payments are fixed or determinable with a fixed maturity (which means that the contract defines the amounts and dates of the payments to the holding entity) with respect to which the Institution has both the intent and the capacity to hold up to their maturity.

At the time they are acquired, they are initially recognized at their fair value, which applies to the agreed upon price, and applied to income for the year on accrued interest. On the date sold, the gain or loss is recognized on the trade for the spread between the net realization value and its carrying value.

The transaction costs of the acquisition of the securities will be recognized depending upon the classification in which they are designated, as follows:

- a) Trading securities.- Income for the year on the acquisition date.
- b) Available-for-sale securities and held-to-maturity securities.- Initially as part of the investment.

6. ***Impairment of the value of a security*** - The Institution evaluates if there are objective indicators that a security is impaired at the date of the balance sheet.

A security is considered to be impaired and, therefore, an impairment loss is incurred if, and only if there are objective impairment indicators as a result of one or more events that occur subsequent to the initial recognition of the security, which had an impact on its estimated future cash flows that can be determined reliably. It is not very likely to identify a single event that is individually the cause of such impairment. It is more feasible that the combined effect of various events might have caused the impairment.

7. ***Repurchase transactions (repos)*** - Repurchase transactions are those whereby the seller acquires the ownership of negotiable instruments for a sum of money, and is bound to transfer the ownership of other securities of the same type to the seller in the agreed upon term and against the reimbursement of the same price plus a premium. The premium is in the benefit of the seller, unless agreed upon otherwise.

Repurchase transactions are considered as a sale for legal purposes where a repurchase agreement is set forth of the transferred financial assets. However, the economic substance of repurchase transactions is that of financing with collateral, whereby the seller delivers cash as financing, in exchange for obtaining financial assets that serve as protection in the event of nonperformance. Repurchase transactions (repos) are recorded as indicated below:

- On the date of contracting the repurchase transaction, the Institution, acting as a buyer, recognizes the cash inflow or a debit clearing account, as well as an account payable at its fair value, initially its agreed upon price, which represents the obligation to reimburse that cash to the seller.
- Throughout the life of the repurchase transaction, the account payable is valued at its fair value, through recognition of interest on the repurchase transaction in income of the year as accrued, in accordance with the effective interest method, and making an application to that account payable.
- On the day that the repurchase transaction is contracted, when the Institution acts as the buyer it recognizes the disbursement of cash or a payable to a clearing account, as well as record an account receivable at its fair value at the price agreed upon initially, which represents the right to recover the cash delivered.

Over the life of the repurchase transaction, the receivable is valued at its fair value, through recognition of interest on the repurchase transaction in income of the year as accrued, in accordance with the effective interest method, and making an application to that account receivable.

#### ***Collateral furnished and received other than cash***

Collateral furnished by the seller to the buyer (other than cash) is recognized in accordance with the following:

- a) The buyer recognizes the collateral received in memorandum accounts. The seller reclassifies the financial asset in its balance sheet, by presenting it as a restricted asset. Toward that end, the valuation, presentation, and disclosure standards are adhered to in accordance with the pertinent accounting criterion for the applicable lending institutions.
- b) Upon selling the collateral, the buyer recognizes the proceeds from the sale, as well as an account payable for the obligation to return such collateral to the seller (measured initially at the fair value of that collateral), which is valued at fair value (any spread between the price received and the fair value of the account payable will be recognized in income of the year).
- c) In the event that the seller should fail to perform the conditions set forth in the contract and, therefore, should not be able to claim the collateral, the seller should remove it from its balance sheet at its fair value against the account payable. By the same token, the buyer recognizes the receipt of collateral in its balance sheet, in accordance with the type of asset involved, against the account receivable or, if applicable, such collateral had previously been sold, the buyer writes off the account payable discussed, relative to the obligation to return such collateral to the buyer.
- d) The seller keeps the collateral in its balance sheet, and the buyer only recognizes it only in memorandum accounts, except when the risks, benefits, and control of that collateral has been transferred due to seller nonperformance.
- e) Memorandum accounts recognized for collateral received by the buyer are written off when: i) the repurchase transaction reaches maturity; ii) there is seller nonperformance; or iii) the buyer exercises the right to sell or accord and satisfaction of the collateral received.

8. ***Derivative financial instruments trading and hedge transactions*** - The Institution carries out two types of transactions:

- Hedging transactions when derivative financial instruments are traded in order to offset one or various financial risks generated by a transaction or set of transactions associated with a primary position.
- Trading operations when the Institution maintains a derivative financial instrument with the original intent to obtain gains based on changes in their fair value.

Hedging transactions, in accordance with the hedged risk exposure profile, can be:

- a) Fair value hedge: This represents a hedge against exposure to changes in fair value of recognized assets or liabilities or unrecognized firm commitments, or of a portion identified of those assets, liabilities or unrecognized firm commitments that is attributable to a particular risk that can affect the gain or loss of the period.
- b) Cash flow hedge: This represents a hedge of the exposure to the change in cash flows of a forecasted transaction that: (i) is attributable to a particular risk associated with a recognized asset or liability (such as the total or some of the future interest payments applicable to a credit or debt instrument at a variable interest rate), or with a highly likely event; and that (ii) it can affect income of the period.
- c) Hedged net investment in a foreign operation.

A fair value hedging transaction should be recognized as follows:

- 1) The gain or loss on the valuation of the fair value hedging instrument (for a hedge derivative) or the foreign currency component valued in conformity with FRS B15 "Foreign currency translation" for a non-derivative hedging instrument) should be recognized in income for the period; and
- 2) The gain or loss on the hedged item attributable to the hedged risk should adjust the carrying value of that item and it should be recognized in income of the period. The foregoing even applies if the hedged item is valued at cost (for example, when the interest rate risk is hedged in the loan portfolio that is valued at amortized cost). The recognition of the gain or loss on valuation attributable to the hedged risk in income for the period even applies if the hedged item is an investment in securities designated as available-for-sale.

A cash flow hedging transaction should be recognized as follows:

- 1) The portion of the gain or loss on the hedged instrument that is effective in the hedge should be recognized in stockholders' equity, and forms part of the other items of comprehensive income.

- 2) The portion of the gain or loss on the hedged instrument that is ineffective in the hedge should be recognized in directly in income for the year.
- 3) Contributed capital or margin accounts managed (delivered and received) when derivative financial instruments are traded on unrecognized markets are recorded in the item of "Margin Accounts" and "Other payables and accrued liabilities", respectively.
- 4) The accounting criteria of the Commission do not consider the counterparty risk for the valuation of derivative financial instruments.

A cash flow hedge should be accounted for as follows:

- 1) The effective hedging component recognized in stockholders equity associated with the hedged item should be adjusted to equal the lower amount from between the following items:
  - i. The accumulated gain or loss of the hedging instrument since the inception thereof; and
  - ii. The accumulated change in fair value (present value) of expected future cash flows of the hedged item from the inception of the hedge.

9. **Foreign currency transactions** - Foreign currency transactions are recorded at the current exchange rate at the date of the transaction. Foreign currency assets and liabilities are valued at the current exchange rates at the end of period exchange rates, determined and published by BANXICO.

10. **Loan portfolio** - Loans granted are recorded as an asset as of the date on which funds are drawn down and interest is aggregated as accrued, in accordance with the loan payment schedule.

Interest applicable to current lending operations is recognized and applied to income as accrued. Interest accrual is suspended at the time at which the unpaid balance of the loan is considered in default.

While loans remain classified as nonperforming portfolio, accrued interest is controlled in memorandum accounts. In the event that this interest should be collected, it is recognized in income of the year.

#### ***Nonperforming portfolio***

The performing portfolio is transferred to the nonperforming portfolio when the unpaid balance of the current loans meets the following constraints:

- a) It is known that the borrower is declared in bankruptcy proceedings with a merchant;
- b) Loans with a single payment on principal and interest at maturity and present 30 or more calendar days in arrears;

- c) Loans with a single payment on principal at maturity and periodic payments on interest that present 90 or more calendar days in arrears of the respective interest payment or 30 or more calendar days in arrears of the principal;
- d) Loans with periodic payments on principal and interest and present 90 or more calendar days in arrears;
- e) Revolving loans that present two monthly billing periods or, if applicable, 60 or more calendar days in arrears.
- f) Monthly periods may be used with respect to terms to maturity, with the following equivalences:

30 days is equivalent to one month, 60 days to two months, and 90 days to three months.

### ***Impaired portfolio***

All those commercial credits are understood as impaired portfolio. Based on current information and events, as well as the review process of such credits, there is a considerable likelihood that both the principal component and interest of impaired portfolio may not be entirely recovered, in accordance with the terms and conditions agreed upon originally. Both the current portfolio and nonperforming portfolio may be identified as an impaired portfolio.

### ***The significant policies and procedures for granting, controlling, and recovering loans set forth in the Institution's regulations are as follows:***

- a) Loans granted or guaranteed by the Institution are for financing projects and economically and financially viable companies.
- b) The maximum limit of financing is determined based on the needs of the investment project and results of the evaluation of the creditworthiness of the company or project.
- c) The terms and periods of grace of loans are established based on the creditworthiness of companies.
- d) Collateral, preferably mortgage securities, is obtained in adequate, sufficient proportion, in accordance with the characteristics of the loans and, if applicable, in accordance with the type of financial broker that grants it.
- e) Loan securities granted by the Institution are complementary to those that should be furnished by borrowers and do not substitute those securities. Accordingly, brokers should negotiate the securities that back the loan granted with the borrowers in each case.
- f) The borrower should have proven creditworthiness and integrity.

- g) Credit granting operations of Bank Financing Brokers of IFB, as well as Non-Bank Financial Brokers or IFNB are recorded at the offices of the parent company. Balances are reconciled with IFNB balances every month, as well as with IFB balances every quarter.
- h) Portfolio turnover is carried out through the Institutional Portfolio Recovery and Management System (SIRAC), managed at the office of the parent company by the Credit Management General Office.
- i) No new credit operations are carried out with the creditor company, as long as there are debts in arrear with that company.
- j) Out-of-court collection procedures are realized in the portfolio with nonperformance of 3 to 90 days.
- k) Once 90 days of nonperformance of a debt have elapsed, the loan balance is considered nonperforming and collection is made through legal means, either directly in the case of first floor loans or through financial brokers in the case of discounts of loans.

The Institution's main policies and procedures for the evaluation and follow-up on loans risks in accordance with the type of operation are as follows:

### ***Second Tier Operations***

- a) Modality "A" Financial Brokers defined as banks or factoring or leasing companies that form part of a financial group that includes a bank. Given the collection mechanism with a charge to its BANXICO account, these brokers are considered on the lowest risk scale

A "Credit Risk Limit Assignment Methodology for Operating with Banks in Mexico" has been established for these brokers, which sets forth the maximum credit risk levels that it is willing to accept with each one of these brokers, in both credit and discount operation, as well as financial market operations. The established limits are followed up on every day, and the limits are updated every month. Considering their high creditworthiness, supervision of the broker is carried out by monitoring the broker through the evolution of its risk rating, and annual visits are realized.

- b) Modality "B" Financial Brokers applies to all the IFNB that do not form part of a financial group that includes a bank. They are considered as a regular source of credit risk. Consequently, specific rules and regulations have been established that these brokers must comply with for brokering or trading with the Institution's resources.

Supervision mechanisms have been established for these brokers, which follow up on their financial evolution on a monthly basis, as well as compliance with the regulations that have been imposed thereon. In addition, credits granted to brokers are rated according to the drawdowns, and semester or annual supervision visits are realized based on their risk rating.

### ***First Tier Operations***

This operation is marginal for the Institution. A follow-up mechanism is established based on the portfolio credit risk rating, in accordance with the established guidelines.

### ***Guarantee program operations***

A monthly follow-up has been established for the operations portfolio of the guarantee program, which includes the analysis of harvests or crops, analysis of the results of the follow-up on the processes agreed upon with banks at a sample level, and the analysis of the financial evolution of the deeds of trust established in the Institution. Banks that participate in this program independently submit the credits supported under the guarantee program, into their credit risk follow-up policies and procedures, as well as the risk rating in accordance with the established guidelines.

11. ***Preventive estimate for credit risks*** - The Commission determines the bases for the loan portfolio rating. The provision applicable to loan risks is estimated monthly, based on quantitative and qualitative factors contemplated in the methodology for rating portfolios established by the NBSC, which considers the analysis of the impaired portfolio, in accordance with the risk that it presents. The Institution follows the practice of creating additional overall provisions to deal with possible contingencies in facing foreseeable risks.

Through the Provisions, the Commission establishes the loan portfolio rating methodologies based on the type of credits comprising it, so that it allows for:

- a) Evaluating each borrower, in the case of the consumer loan portfolio, taking into account the likelihood of nonperformance, the severity of the loss, and nonperformance exposure.
- b) Stratifying the portfolio based on the delinquency in payments which includes, in the case of the mortgage housing loan portfolio, the likelihood of nonperformance, severity of the loss, and nonperformance exposure, and the value of the credit guarantee, so that the amount of the preventive reserves required in each portfolio stratum is determined based thereon.
- c) Analyzing the creditworthiness of its debtors in the case of the commercial loan portfolio, and estimate possible losses so that the amount of the preventive reserves required is determined based thereon.
- d) Using internal methodologies prepared by the lending institutions themselves in accordance with the Provisions, when they evidence that the requirements have been met determined by the Commission for that purpose.

In accordance with the Provisions, the provision applicable to the mortgage housing and consumer loan portfolio is estimated monthly, based on the last day balances of each month.

In addition, the balances relative to the quarters that end in March, June, September, and December are used for purposes of rating the commercial portfolio. The applicable preventive reserves are recorded in the accounting at the end of every quarter, considering the balance of the debt recorded on the last day of the months referred to above. For the book entry in the two months subsequent to each quarter end, the pertinent rating is applied to the balance of the credit involved that has been used at the immediately preceding quarter, recorded on the last day of the months referred to above, when there is an interim rating subsequent to the quarter end. This rating can be applied to the balance of the debt recorded on the last day of the two months under discussion.

Beginning December, the Institution applied the new portfolio rating methodology established by the Commission in its resolution published in the Official Daily Gazette on June 24, 2013. This change considers the risk measurement based on the likelihood of nonperformance and severity of the loss.

The legal system referred to above only included exposures payable by corporations and small and medium-sized companies (commercial portfolio other than financial entities). The rest of the portfolio, fundamentally financial entities, will be rated in 2014.

12. ***Other receivables, net*** - The amounts applicable to the Institution's other receivables are provided for with a charge to income for the year, regardless of the likelihood of recovery, within 60 to 90 days subsequent to their initial book entry, depending on whether or not the balances are identified, respectively.
13. ***Property, furniture and equipment net*** - Property, furniture and equipment, as well as installation expenses, and leasehold improvements are recorded at the cost of acquisition. Files that come from acquisitions up to December 31, 2007 were restated by applying factors derived from Investment Units (UDIS) from the date of acquisition up to that date. Relative depreciation and amortization are recorded by applying a percentage to the restated cost up to that date, determined based on the estimated economic useful life thereof.
14. ***Repossessed assets or received as a dation in payment*** - These assets are recorded at the lower of the cost of adjudication or fair value reduced from the costs and expenses strictly indispensable that are disbursed in their acquisition.

Repossessed assets are valued as set forth in the Provisions, in accordance with the type of asset involved. The valuation is recorded against income for the year as other operating income (expenses).

The amount of the estimate that recognizes potential losses of value due to the elapsing of time of the repossessed assets should be determined on the adjudicated value, based on the procedures set forth in the Provisions, and recognized in income for the year as other operating income (expenses).

In the event that the estimate referred to in the prior paragraph should be modified in accordance with the Provisions referred to above, that adjustment should be recorded against the amount of the previously recognized estimate as operating income (expenses).

At the time when repossessed assets are sold, the difference between the selling price and carrying value of the asset acquired through judicial proceedings, net of estimates, should be recognized in the income for the year as other operating income (expenses).

15. **Taxes on earnings** - Corporate Flat Tax ("IETU"), which was in effect up to 2013, and Income Tax are recorded in income for the year in which they become due and payable. In order to recognize deferred tax up to December 31, 2012, it was determined that the Institution would be subject to Income Tax or IETU, based on financial projections. Deferred tax on earnings will be determined by applying the applicable rate to the temporary differences that result from comparing book and tax values of assets and liabilities and, if applicable, the benefits of tax loss carryforwards and some tax credits are included. The deferred tax asset is recorded only when there is a high likelihood that it can be recovered.
16. **Other investments and permanent investments** - These are permanent investments realized in trusts and stock of companies in which there is no joint control, nor significant influence. They are initially recorded at the cost of acquisition. They are valued by using the equity method, considering the financial information relative to such entities when there is a practical impossibility of obtaining financial information from entities. The investment is adjusted to a zero value or its cost of acquisition. The adjustment procedure is selected by considering the prudential application criterion of the particular rules contained in FRS.
17. **Traditional deposits** - The liabilities for attracting funds through certificates of deposit, fixed term deposits, bank acceptances, promissory notes with liquid yield at maturity, loans from domestic and foreign banks, and bank bonds are recorded based on the contractual value of the obligation. Accrued interest is recognized in income for the year as interest expense.
18. **Interbank loans and from other agencies** - Liabilities from interbank loans are recorded based on the contractual value of the obligation. Accrued interest is recognized directly in income of the Institution as interest expense.
19. **Direct employee benefits** - Such benefits are valued in proportion to the services rendered considering current salaries, and the liability is recognized as accrued. It mainly includes Employee Profit Sharing payable, compensated absences such as vacations, and vacation premium, and incentives.
20. **Labor obligations** - The payments set forth in the Federal Labor Act and General Work Conditions (GWC) in effect to employees and workers, who no longer render their services, as provided for in the Federal Labor Law and the labor conditions in effect, are recorded as follows:

**Indemnifications-**

Non-substitutive payments of a retirement made to personnel who retire under certain circumstances are recorded as accrued, which are calculated by independent actuaries, based on the projected unit credit method by using nominal interest rates.

**Seniority premium-**

The seniority bonus payable to employees that have completed fifteen or more years of service, as provided for in the Federal Labor Law, are recognized as a cost during the years of service of personnel. Toward that end, there is a provision that covers the obligation for current benefits, which is calculated by independent actuaries, based on the projected unit credit method by using nominal interest rates.

In accordance with the Federal Labor Law, the Institution has a liability for indemnifying employees who are dismissed under certain circumstances, and an obligation to pay a seniority bonus when they retire voluntarily (provided that they have completed fifteen years or more of service). They are dismissed for a justified reason and those who are terminated, regardless of whether or not for a justified cause, in the event of disability or they are invalid and, in case of the worker's death.

21. **Provisions** - Provisions are recognized when the Institution has a present obligation derived from a past event that probably results in the disbursement of economic resources (funds) and can be reasonably estimated.
22. **Employee Profit Sharing** - This item is recorded in income for the year in which it becomes due, and it is presented in the item of administrative and promotion expenses in the statement of income. Deferred employee profit sharing is determined by temporary differences resulting from comparing book and tax values of assets and liabilities. It is only recognized when it is likely that a liability will be liquidated or a benefit will be generated and there is no indicator that this situation is going to change, in such a way that this liability or benefit is not realized.

Employee Profit Sharing is determined based on taxable income, in accordance with subsection I of Article 10 of the Income Tax law (ISR Law). At December 31, 2013 and 2012, Employee Profit Sharing amounted to \$152 and \$164, respectively.

23. **Recognition of interest** - Interest generated on lending operations in effect are recognized and applied to income based on the accrued amount. Interest applicable to the nonperforming portfolio is applied to income at the time it is collected. Yields on interest relative to investments in securities are applied to income based on what is accrued.

Interest relative to borrowing operations are recognized in income as accrued, regardless of their due date.

For purposes of presentation of the statement of income, fees, premiums, and foreign exchange transactions are included in the item of interest income.

Fees charged for the initial granting of credits are recorded as a deferred credit, which is amortized as interest income, under the straight-line method during the life of the credit.

- 24. Brokerage fees** - Given the role of involvement realized by the Institution as a means of liaison between the lender of financing and the borrower, the Institution obtains a fee for its work of negotiating credits on the markets. That fee is recorded in the statement of income when generated in the item of "Fees and rates income".
- 25. Gain or loss on brokerage** - Gains or losses on brokerage derived from securities and derivative instruments trading, valuations at fair value of investments in securities and derivative financial instruments, and the recognition of the increase or decrease in the value of investments in securities.
- 26. Trusts** - The operations in which the Institution acts as a Trustee are recorded and controlled in memorandum accounts. In accordance with the ISR Law, the Institution acting as a Trustee is responsible for compliance with the tax obligations of the trusts that realize business activities up to the amount of the trust assets.
- 27. Foreign currency transactions** - Monetary assets and liabilities, as well as the items of the statements of income of foreign subsidiaries are translated at the closing exchange rate of the valuation date.
- 28. Clearing accounts** - For purposes of presentation of the financial statements, the balance of debit and credit clearance accounts may be offset, provided that they are derived from the same type of transactions, which have been carried out with the same counterparty and are liquidated on the same maturity date.
- 29. Impairment of long-lived assets** - The Institution reviews the carrying value of the long-lived assets in use with respect to the presence of any impairment indicator that might indicate that the carrying value might not be recoverable, considering the higher present value of the future net cash flows or the net selling price in the event of their eventual disposition. The impairment is recorded if the carrying value exceeds the higher of the values discussed above.

At December 31, 2013 and 2012, The Institution's long-lived assets do not present any impairment indicators.

#### NOTE 4. FOREIGN CURRENCY POSITION

At December 31, 2013 and 2012, the foreign currency position valued in local currency is summarized as follows:

	<u>2013</u>	<u>2012</u>
Assets	\$ 25,239	\$ 26,737
Liabilities	(25,402)	(26,715)
(Short) long position	<u>\$ (163)</u>	<u>\$ 22</u>

Foreign currency assets and liabilities valued in local currency are documented as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Net 2013</u>	<u>Net 2012</u>
US dollars	\$ 24,689	\$ 24,891	\$ (202)	\$ (26)
Japanese yen	1	-	1	2
Euros	451	456	(5)	2
Pounds sterling	48	6	42	44
Special draft fees	50	49	1	-
	<u>\$ 25,239</u>	<u>\$ 25,402</u>	<u>\$ (163)</u>	<u>\$ 22</u>

At December 31, 2013 and 2012, the value of the US dollar is equivalent to 13.0843 and 12.9658 Mexican pesos per US dollar, in conformity with the exchange rate published by BANXICO, respectively. Other currencies are valued considering their exchange rate in connection with the US dollar.

At the date of this report, the value of the US dollar is equivalent to 13.1949 Mexican pesos per US dollar, in conformity with the exchange rate published by BANXICO. Other currencies are valued considering their exchange rate in connection with the US dollar.

#### **NOTE 5. LIQUID ASSETS**

At December 31, 2013 and 2012, the item of liquid assets is summarized as follows:

	<u>2013</u>	<u>2012</u>
Deposits in BANXICO	\$ 11,742	\$ 11,748
Deposits in domestic and foreign banks	2,341	1,865
Call Money Deposits	3,327	5,817
Other liquid assets	3	5
Liquid assets in subsidiaries	41	-
	<u>\$ 17,454</u>	<u>\$ 19,435</u>

Deposits in BANXICO apply to monetary regulation deposits, in conformity with the telefax circular 1/2007 issued by BANXICO on Saturday, January 27, 2007.

At December 31, 2013 and 2012, \$877 and \$1,141 are included in deposits in domestic and foreign banks, respectively, for spot purchase transactions of restricted foreign currency.

At December 31, 2013, the Institution maintains Call Money deposits at a term less than or equal to three bank business days in the amount of \$3,327, of which \$2,662 were contracted at an average rate of 3.50% in local currency, as well as \$665 at an average rate of 0.36% in foreign currency.

At December 31, 2012, the Institution maintains Call Money deposits at a term less than or equal to three bank business days in the amount of \$5,817, of which \$1,193 were contracted at an average rate of 4.43% in local currency, as well as \$4,624 at an average rate of 0.33% in foreign currency.

Liquid assets in foreign currency at December 31, 2013 and 2012 are summarized as follows:

	<u>Amount in millions of source currency</u>	<u>Exchange rate</u>	<u>Equivalence in local currency</u>
<b>2013</b>			
US dollars	220	13.08430	\$ 2,883
Japanese yen	6	0.12450	1
Euros	4	18.03017	78
Pounds sterling	2	21.66891	40
			<u>\$ 3,002</u>
<b>2012</b>			
US dollars	493	12.96580	\$ 6,390
Japanese yen	10	0.15012	1
Euros	3	17.13819	54
Pounds sterling	2	21.06813	42
			<u>\$ 6,487</u>

The item of other liquid assets at December 31, 2013 and 2012 includes coined gold precious metals in the amount of \$3 and \$4, respectively. These coins are valued at their market value.

#### **NOTE 6. INVESTMENTS IN SECURITIES**

At December 31, 2013 and 2012, this item is summarized as shown below:

##### **Trading securities:**

<u>Instrument</u>	<u>2013</u>			<u>2012</u>	
	<u>Cost of acquisition</u>	<u>Accrued interest</u>	<u>Valuation</u>	<u>Carrying value</u>	<u>Carrying value</u>
Shares of the Development Fund for the Securities Market (DFSM)	\$ 89	\$ -	\$ 6	\$ 95	\$ 129
Bonds	4,604	6	25	4,635	5,395
Securities exchange certificate	10,555	11	6	10,572	3,141
CETES	6	-	-	6	5
Ipabonos	2,433	28	7	2,468	1,171
Promissory notes with liquid yield at maturity	4,001	-	-	4,001	-

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Instrument	2013				2012
	Cost of acquisition	Accrued interest	Valuation	Carrying value	Carrying value
<i>Restricted financial instruments:</i>					
Bonds	69,578	2	(44)	69,536	74,143
Securities exchange certificate	3,185	-	2	3,187	1,113
Ipabonos	92,097	61	(158)	92,000	106,147
Promissory notes with liquid yield at maturity	3,669	1	1	3,671	-
<i>Financial instruments placed in guarantee:</i>					
Ipabonos	279	-	-	279	636
<i>Investments in subsidiaries</i>	8	-	-	8	5
	<u>\$ 190,504</u>	<u>\$ 109</u>	<u>\$ (155)</u>	<u>\$ 190,458</u>	<u>\$ 191,885</u>

The terms at which these investments are agreed upon at December 31, 2013 at their cost of acquisition are as follows:

Instrument	Less than one month	Between one and three months	More than three months	No fixed term	Total
Shares of the Development Fund for the Securities Market (DFSM)	\$ -	\$ -	\$ -	\$ 89	\$ 89
Bonds	-	-	4,604	-	4,604
Securities exchange certificate	-	-	10,555	-	10,555
CETES	4	1	1	-	6
Ipabonos	-	747	1,686	-	2,433
Promissory notes with liquid yield at maturity	4,001	-	-	-	4,001
<i>Restricted financial instruments</i>					
Bonds	69,578	-	-	-	69,578
Securities exchange certificate	3,185	-	-	-	3,185
Ipabonos	92,097	-	-	-	92,097
Promissory notes with liquid yield at maturity	3,669	-	-	-	3,669
<i>Financial instruments placed in guarantee:</i>					
Ipabonos	-	-	279	-	279
<i>Investments in subsidiaries</i>	-	-	8	-	8
	<u>\$ 172,534</u>	<u>\$ 748</u>	<u>\$ 17,133</u>	<u>\$ 89</u>	<u>\$ 190,504</u>

**Available-for-sale securities:**

At December 31, 2013 and 2012, liquid assets for sale are summarized in accordance with the following:

Instrument	2013				2012
	Cost of acquisition	Accrued interest	Valuation	Carrying value	Carrying value
Sovereign debt	\$ 946	\$ 15	\$ 11	\$ 972	\$ 670
Debentures and other securities	1,706	27	31	1,764	1,587
	<u>\$ 2,652</u>	<u>\$ 42</u>	<u>\$ 42</u>	<u>\$ 2,736</u>	<u>\$ 2,257</u>

The terms at which these investments are agreed upon at December 31, 2013 and 2012 at their cost of acquisition are as follows:

Instrument	More than one year	
	2013	2012
Sovereign debt	\$ 946	\$ 601
Debentures and other securities	1,706	1,440
	<u>\$ 2,652</u>	<u>\$ 2,041</u>

**Held-to-maturity securities:**

As of December 31, 2013 and 2012, medium and long-term debt securities are divided as follows:

Instrument	2013			2012
	Cost of acquisition	Accrued interest	Carrying value	Carrying value
Prides convertible bonds	\$ 3	\$ -	\$ 3	\$ 3
Securities exchange certificate	851	49	900	821
Segregable securities exchange certificate	1,989	415	2,404	3,247
Sovereign debt	653	17	670	632
Udibonos	282	54	336	326
<i>Restricted financial instruments:</i>				
Segregable securities exchange certificate	6,812	1,430	8,242	7,185
Total	<u>\$ 10,590</u>	<u>\$ 1,965</u>	<u>\$ 12,555</u>	<u>\$ 12,214</u>

The terms at which these investments are agreed upon at December 31, 2013 and 2012 at their cost of acquisition are as follows:

<u>Instrument</u>	<u>Less than one year</u>	<u>More than one year</u>	<u>No fixed term</u>	<u>Total</u>
<b>2 0 1 3</b>				
Prides convertible bonds	\$ -	\$ -	\$ 3	\$ 3
Securities exchange certificate	-	851	-	851
Segregable securities exchange certificate	-	1,989	-	1,989
Sovereign debt	-	653	-	653
Udibonos	115	167	-	282
<i>Restricted financial instruments:</i>				
Segregable securities exchange certificate	6,812	-	-	6,812
Total	<u>\$ 6,927</u>	<u>\$ 3,660</u>	<u>\$ 3</u>	<u>\$ 10,590</u>

For the period extending from January 1 up to December 31, 2013, interest income from investments in securities amounted to \$1,078. The gain or loss on valuation amounts to \$1,080, and the gain or loss on securities trading amounted to \$(442).

<u>Instrument</u>	<u>Less than one year</u>	<u>More than one year</u>	<u>No fixed term</u>	<u>Total</u>
<b>2 0 1 2</b>				
Prides convertible bonds	\$ -	\$ -	\$ 3	\$ 3
Securities exchange certificate	-	782	-	782
Segregable securities exchange certificate	-	2,786	-	2,786
Sovereign debt	-	616	-	616
Udibonos	-	284	-	284
<i>Restricted financial instruments:</i>				
Segregable securities exchange certificate	6,166	-	-	6,166
Total	<u>\$ 6,166</u>	<u>\$ 4,468</u>	<u>\$ 3</u>	<u>\$ 10,637</u>

For the period extending from January 1 up to December 31, 2012, interest income on investments in securities amounted to \$1,096. The gain on valuation amounted to \$260, and the gain or loss on securities trading amounted to \$320.

#### **NOTE 7. REPURCHASE TRANSACTIONS**

At December 31, 2013 and 2012, repurchase transactions are summarized as follows:

<u>Instrument</u>	<u>Received in guarantee</u>	<u>Collateral received and sold or delivered in guarantee</u>	<u>Difference</u>
<b>2 0 1 3</b>			
Governmental securities:			
CETES	\$ 2,248	\$ 2,248	\$ -
Securities exchange certificate Federal Government	500	500	-
Development Bonds	9,700	9,700	-
Fixed rate bonds	752	752	-
	<u>\$ 13,200</u>	<u>\$ 13,200</u>	<u>\$ -</u>
<b>2 0 1 2</b>			
Governmental securities:			
Securities exchange certificate Federal Government	\$ 3,129	\$ 3,129	\$ -
Development Bonds	35,611	35,611	-
Fixed rate bonds	8,981	8,981	-
Ipabonos	26,891	26,891	-
	<u>74,612</u>	<u>74,612</u>	<u>-</u>
Other securities and debentures:			
Securities exchange certificate	198	198	-
	<u>\$ 74,810</u>	<u>\$ 74,810</u>	<u>\$ -</u>

At those same dates, the borrowing party of payables under repurchase agreements are as follows:

	<u>2 0 1 3</u>	<u>2 0 1 2</u>
Governmental securities:		
Bonds	\$ 69,580	\$ 74,074
Segregable securities exchange certificate	8,172	7,956
Ipabonos	92,152	106,147
	<u>169,904</u>	<u>188,177</u>
Bank securities:		
Securities exchange certificate	3,185	1,113
Promissory notes with liquid yield at maturity	3,669	-
	<u>6,854</u>	<u>1,113</u>
	<u>\$ 176,758</u>	<u>\$ 189,290</u>

For the year extending from January 1 up to December 31, 2013, the gain or loss on interest income and expense on repurchase transactions amounts to \$11,601 and \$10,237, respectively, and income amounting to \$13,540 and expenses amounting to \$12,001 in 2012.

The contracting terms in repurchase transactions realized by the institution are from 1 to 180 days.

**NOTE 8. DERIVATIVES**

At December 31, 2013 and 2012, the Institutions maintains balances in derivative instruments trading as described below:

	<u>Lending balance</u>	<u>Borrowing balance</u>	<u>Debit balance</u>	<u>Credit balance</u>
<b>2013</b>				
<i>For trading purposes:</i>				
Forward contracts	\$ 2,290	\$ 2,279	\$ 11	\$ -
Valuation of forward contracts	-	(2)	2	-
	<u>2,290</u>	<u>2,277</u>	<u>13</u>	<u>-</u>
Swaps	4,831	4,850	-	19
Total	<u>\$ 7,121</u>	<u>\$ 7,127</u>	<u>\$ 13</u>	<u>\$ 19</u>
<i>For hedging purposes:</i>				
Swaps	<u>\$ 6,572</u>	<u>\$ 5,971</u>	<u>\$ 601</u>	<u>\$ -</u>
<b>2012</b>				
<i>For trading purposes:</i>				
Forward contracts	\$ 4,409	\$ 4,365	\$ 44	\$ -
Valuation of forward contracts	(1)	(11)	10	-
	<u>4,408</u>	<u>4,354</u>	<u>54</u>	<u>-</u>
Swaps	6,225	6,284	-	59
Total	<u>\$ 10,633</u>	<u>\$ 10,638</u>	<u>\$ 54</u>	<u>\$ 59</u>
<i>For hedging purposes:</i>				
Swaps	<u>\$ 2,753</u>	<u>\$ 2,370</u>	<u>\$ 383</u>	<u>\$ -</u>

**Future and forward contracts (Forward):**

*For trading purposes*

	<u>2013</u>	<u>2012</u>
US dollars		
Sales:		
Contract value	\$ <u>2,279</u>	\$ <u>4,365</u>
Receivable	\$ <u>2,277</u>	\$ <u>4,354</u>
Purchases:		
Contract value	\$ <u>2,290</u>	\$ <u>4,409</u>
Deliverable	\$ <u>2,290</u>	\$ <u>4,408</u>
Book balance	<u>\$ 13</u>	<u>\$ 54</u>

The Institution participates on the Mexican Derivatives Market (MEXDER), through trading of interest rate and foreign currency futures, in accordance with the authorization granted by BANXICO.

In the case of dollar-peso forwards, the master contract does not stipulate maintaining guarantees for over the counter trades or in other means other than recognized markets. At any rate, penalties are assessed on the nonperforming counterparty on amounts in pesos or dollars, depending on the position in the trade. Moreover, the governing law and jurisdiction are agreed upon in the master contract which, if necessary, have to intervene to solve the discrepancies in the flow of foreign currencies.

### Swaps:

*For trading purposes*

	<u>Contract value</u>	<u>Receivable</u>	<u>Deliverable</u>	<u>Net position</u>
<b>2013</b>				
Interest rates	\$ 13,900	\$ 4,831	\$ (4,850)	\$ (19)
<b>2012</b>				
Interest rates	\$ 12,600	\$ 4,211	\$ (4,229)	\$ (18)
Foreign currency	1,998	2,014	(2,055)	(41)
Total	\$ 14,598	\$ 6,225	\$ (6,284)	\$ (59)

*For hedging purposes:*

	<u>Contract value</u>	<u>Receivable</u>	<u>Deliverable</u>	<u>Net position</u>
<b>2013</b>				
Interest rates	\$ 25,878	\$ 6,572	\$ (5,971)	\$ 601
<b>2012</b>				
Interest rates	\$ 11,861	\$ 2,753	\$ (2,370)	\$ 383

### Options:

*For hedging purposes:*

	<u>Contract value</u>	<u>Receivable</u>	<u>Deliverable</u>	<u>Net position</u>
<b>2013</b>				
Interest rates	\$ 1	\$ -	\$ -	\$ -
<b>2012</b>				
Interest rates	\$ 2	\$ -	\$ -	\$ -

Exchange rate and interest rate futures and forwards trading that are traded at the main office in Mexico City are intended to manage proprietary positions, in order to obtain earnings in favor of the Institution.

In the case of dollar-peso forwards for trading purposes, fair value represents the amount that the two parties agree to exchange, based on the fact that both parties maintain sources of information in common on the main financial indicators that affect the prices of this type of derivative.

The difference between the fair value of the contract and the price of the forward stipulated therein, multiplied by the amount of the underlying asset and discounted at the date of the day at issue, represents the unrealized gain or loss under conditions of the financial environment at the time of carrying out the trade described above. Fair value is determined by the curve of prevailing bank rates of interbank transactions realized in Mexico and reported by the independent pricing service, as well as similar rates in the United States.

The Institution realizes various analyses on underlying markets of the derivative products that are traded in order to determine and propose the risks implied in the Institution's position, through the Comprehensive Risk management Committee (CAIR).

The benefits, costs, and valuations of futures trades and forward contracts are recognized in foreign exchange accounts and gains or losses on valuation at market accounts, and they are presented in the items of interest income and the gain or loss on brokerage in the statement of income.

Futures trades and forward contracts involve recovery risks in the case of contractual fluctuations. In order to reduce the risks in trading these instruments, the Institution maintains offset positions.

At December 31, 2013 and 2012, hedge effectiveness/ineffectiveness derived from the application of Criterion B-5 "Derivatives and Hedge Transactions" of the Commission is described in detail below:

*Fair value hedge swaps (applicable to income)*

	<u>2013</u>	<u>2012</u>
Valuation of:		
Bank acceptances	\$ 3	\$ (12)
Securities exchange certificate	9	(9)
Credits	-	5
Certificates of deposit	23	10
	<u>\$ 35</u>	<u>\$ (6)</u>

At December 31, 2013 and 2012, the Institution has only contracted swaps designated as fair value hedges.

*Trading swaps (application to income):*

	<u>2013</u>	<u>2012</u>
Interest rates	\$ <u>(19)</u>	\$ <u>(108)</u>

The adjustments at carrying value from trades derived from interest rate hedges of financial assets and liabilities due to the application of Criterion B-5 "Derivatives and Hedge Trading" of the Commission at December 31, 2013 and 2012 are described in detail below:

	<u>2013</u>		<u>2012</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Bank acceptances	\$ -	\$ 46	\$ -	\$ 129
Securities exchange certificate	-	5	-	(9)
Promissory notes	-	(1)	-	-
Loan	85	-	73	-
Total	<u>\$ 85</u>	<u>\$ 50</u>	<u>\$ 73</u>	<u>\$ 120</u>

### **Management of the policies of the use of derivative financial instruments**

The Institution's policies permit the use of derivative products for hedging and/or trading purposes. The main objective of trading these products is the hedging of risks and generation of revenues that support the Institution's profitability.

Setting objectives and policies related to trading these instruments is in the Risk Management regulatory and operating manuals.

The instruments used by the Institution are interest and exchange rate swaps, IPC futures and exchange rates, interest rate options, and foreign exchange forwards, which, in accordance with the portfolios, can support hedging and trading strategies.

The markets on which derivative products are traded are money, foreign exchange, and capitals markets, and the eligible counterparties are domestic and foreign banks.

### **Authorization processes and levels**

Control processes, policies, and authorization levels of derivatives trading are set forth in the CAIR, whose duties include the approval of:

1. The specific limits for discretionary risks when powers have been delegated by the Board of Directors therefor, as well as the levels of tolerance in the case of non-discretionary risks.
2. The methodology and procedures for identifying, measuring, overseeing, limiting, controlling, reporting, and disclosing the distinct types of risk that the Institution is exposed to as well as their eventual modifications.

3. The models, parameters and scenarios that must be used to value, measure, and control the risks proposed by the unit for Comprehensive Risk Management, must concur with the institution's technology.
4. The methodologies for identifying, valuing, measuring, and controlling the risks of the new operations, products, and services that the Institution plans to offer to the market.
5. The corrective actions proposed by the unit for Comprehensive Risk Management.
6. The evaluation of the aspects of Comprehensive Risk management referred to in Article 77 of the Provisions for its presentation to the Board of Directors and the Commission.
7. The Comprehensive Risk Management manuals, in accordance with the objectives, guidelines, and policies established by the Board of Directors, referred to in the last paragraph of Article 78 of the Provisions.

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

#### **Independent reviews**

The Institution is under the supervision and oversight of the Commission and BANXICO, which is exercised through follow-up processes, inspection visits, information and documentation requirements, and delivery of reports. Moreover, reviews are realized periodically by the Internal and External Auditors.

#### **Generic description of valuation techniques**

Derivative financial instruments are valued in conformity with the accounting regulations set forth in the Provisions issued by the Commission, as well as the provisions in the particular standard contained in Criterion B-5.

#### **Valuation methodology**

1. For purposes of trades and hedges - there is a structure of operating and regulatory manuals that set forth the valuation methodologies used.
2. Reference variables. Those parameters are used that are utilized by convention within the market practices (rates, exchange rates, prices, volatilities, etc.).
3. Frequency of valuation - Trading position instruments are valued every day.

#### **Administration of internal and external sources of liquidity that might be used to meet requirements related to derivative financial instruments**

Resources obtained through the National Treasury, as well as the international Treasury (London Branch).

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

Stress tests and back testing are realized periodically to estimate the impact on the positions of derivative instruments and satisfactorily validate that the market risk measurement models provide results, in accordance with the exposure thereof to market variability, which must be maintained within the parameters authorized by the CAIR.

The methodology currently used for preparing the stress measurement report consists of calculating the current portfolio value, and be able to make changes in the risk factors that occurred in the:

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

Backrests are based on the following information generated daily:

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

During the fourth quarter of 2013, the number of agreed upon derivative financial instruments was as follows:

Instrument		Number of Operations		Notional	
		Trade	Hedge	Trade	Hedge
IPC Futures	(1)	2,240		7,979	
Forwards (Arbitrations)	(2)	288		17,455,000	
Swaps	(3)	42	33	2,250,000	18,123,608

- (1) Notional refers to the number of contracts: 4,094 Purchase and 3,885 Sales.
- (2) Purchase Transactions, Notional in US dollars.
- (3) Notional amount traded during the month.

### **Formal documentation of hedges**

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

1. File cover.
2. Authorization of the hedge.
3. Diagram of the strategy.
4. Evidence of prospective tests of hedge effectiveness.
5. Evidence of execution of the derivative.
6. Details of the primary position being hedged.
7. Confirmation of the derivative.

### **Sensitivity analysis**

A sensitivity analysis is realized through distinct measures every day, such as:

1. **Duration.**- There are primarily two types of duration with different meanings:
  - a) **Macaulay Duration:** It is the weighted average maturity of the current cash flow values where weighting ratios are the time in years up to the payment of the corresponding flow.
  - b) **Modified Duration:** It is the variation by percentage experienced by the price of a small bond before small variations in the market interest rate.
2. **Convexity.**- It is the variation experienced by the slope of a curve with respect to a dependent variable or what is the same. It measures the variation experienced, as well as the duration before changes in rates.
3. **Greeks.**- Sensitivity measurements for options, except for interest rate options:
  - a) **Delta:** Price sensitivity of options at the price of the underlying securities of the option.
  - b) **Theta:** Price sensitivity of options to the variable time.
  - c) **Gamma:** Third degree price sensitivity of the option to the underlying securities of the option.
  - d) **Vega:** Price sensitivity of the option to the volatility used for its valuation.

e) Rho: Price sensitivity of the option to changes in the interest rate.

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

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

#### NOTE 9. LOAN PORTFOLIO

At December 31, 2013 and 2012, the portfolio by type of loan is summarized as shown below:

	<u>2013</u>	<u>2012</u>
Current portfolio:		
Business or commercial activity credits	\$ 23,301	\$ 17,105
Loans to financial entities	86,691	84,606
Consumer lending	4	2
Housing lending	164	159
Loans to state-owned entities	6,278	9,004
Loans granted as an Agent of the Federal Government	2,439	4,320
	<u>118,877</u>	<u>115,196</u>
Nonperforming portfolio		
Business or commercial activity credits	11	18
Loans to financial entities	1,705	108
Consumer lending	3	3
Housing lending	12	20
	<u>1,731</u>	<u>149</u>
Total loan portfolio	<u>\$ 120,608</u>	<u>\$ 115,345</u>

The nonperforming portfolio presents an increase amounting to \$1,603, caused mainly by credit owed payable by IFNB, whose financing is channeled to real estate companies.

At those same dates, the loan portfolio by source currency is summarized as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Current</u>	<u>Nonperforming</u>	<u>Current</u>	<u>Nonperforming</u>
Local Currency	\$ 104,223	\$ 1,731	\$ 103,840	\$ 149
Foreign Currency	14,654	-	11,356	-
Total	<u>\$ 118,877</u>	<u>\$ 1,731</u>	<u>\$ 115,196</u>	<u>\$ 149</u>

Credits granted as a Financial Agent apply to financing granted to Federal Government entities with resources obtained from international agencies for that specific purposes. They are presented in an independent item of the loan portfolio.

Credits to financial entities are granted to banking and non-banking entities, through the discount of notes payable by legal entities and sole proprietors engaged in business activities.

The balance of the nonperforming portfolio at December 31, 2013 and 2012 in a total amount of \$1,731 and \$149, respectively, beginning the date on which it was classified as nonperforming, is described in detail below:

	<u>Capital and interest</u>	<u>Amounts</u>	<u>Terms</u>
<b>2013</b>			
Business or commercial activity credits	\$ 11	\$ 11	More than two years
Loans to financial entities	1,705	8	181 to 365 days
Loans to financial entities	-	1,697	More than two years
Consumer lending	3	3	More than two years
Housing lending	12	2	1 to 180 days
Housing lending	-	10	181 to 365 days
	<u>\$ 1,731</u>	<u>\$ 1,731</u>	
<b>2012</b>			
Business or commercial activity credits	\$ 18	\$ 18	More than two years
Loans to financial entities	108	108	More than two years
Consumer lending	3	3	More than two years
Housing lending	20	3	1 to 180 days
Housing lending	-	1	181 to 365 days
Housing lending	-	16	More than two years
	<u>\$ 149</u>	<u>\$ 149</u>	

Loan portfolio interest and fees at December 31, 2013 and 2012 are summarized as itemized below:

	<u>Interest</u>	<u>Fees</u>	<u>Total</u>
<b>2013</b>			
Business or commercial activity credits	\$ 1,392	\$ 32	\$ 1,424
Loans to government entities	509	-	509
Loans granted as an Agent of the Federal Government	110	4	114
Loans to financial entities	4,188	69	4,257
Consumer lending	1	-	1
Housing lending	4	-	4
	<u>\$ 6,204</u>	<u>\$ 105</u>	<u>\$ 6,309</u>
<b>2012</b>			
Business or commercial activity credits	\$ 1,351	\$ 43	\$ 1,394
Loans to government entities	518	1	519
Loans granted as an Agent of the Federal Government	182	6	188
Loans to financial entities	4,660	51	4,711
Consumer lending	1	-	1
Housing lending	6	-	6
Total	<u>\$ 6,718</u>	<u>\$ 101</u>	<u>\$ 6,819</u>

The effect derived from the suspension of the accrual of interest of the nonperforming portfolio represented an increase amounting to \$ 88 at fiscal 2012.

As of December 31, 2013 and 2012, restructured loans are summarized as follows:

	<u>Current</u>	<u>Nonperforming</u>	<u>Total</u>
<b>2 0 1 3</b>			
Business or commercial activity credits	\$ 51	\$ 1	\$ 52
Financial entities	511	89	600
Housing	1	2	3
	<u>\$ 563</u>	<u>\$ 92</u>	<u>\$ 655</u>
<b>2 0 1 2</b>			
Business or commercial activity credits	\$ 52	\$ 1	\$ 53
Financial entities	609	58	667
Housing	5	1	6
Total	<u>\$ 666</u>	<u>\$ 60</u>	<u>\$ 726</u>

At December 31, 2013 and 2012, the percentage of concentration of the portfolio by sector is as follows:

	<u>Percentage (%)</u>	
	<u>2 0 1 3</u>	<u>2 0 1 2</u>
Federal Government	1.55	1.97
Instituto de Protección al Ahorro Bancario (IPAB)	0.55	0.85
Other private financial brokers	38.96	35.54
Development banking	0.07	0.08
Full-Service Banking	33.86	37.40
Decentralized agencies and private companies	5.13	8.89
Domestic companies	19.33	14.84
Foreign financial institutions	0.40	0.00
Private parties	0.15	0.43
Total	<u>100.00</u>	<u>100.00</u>

In accordance with Criterion B-6, all those commercial credits are understood as impaired portfolio. Based on current information and events, as well as the review process of such credits, there is a considerable likelihood that both the principal component and interest of impaired portfolio may not be entirely recovered, in accordance with the terms and conditions agreed upon originally. Both the current portfolio and nonperforming portfolio may be identified as an impaired portfolio.

At December 31, 2013 and 2012, the following has been recognized as impaired commercial portfolio:

	Degree of risk			Reserve created
	D	E	Total	
<b>2013</b>				
Current	\$ -	\$ -	\$ -	\$ -
Nonperforming	1,566	161	1,727	890
Total	<u>\$ 1,566</u>	<u>\$ 161</u>	<u>\$ 1,727</u>	<u>\$ 890</u>
<b>2012</b>				
Current	\$ -	\$ 83	\$ 83	\$ 83
Nonperforming	-	124	124	124
Total	<u>\$ -</u>	<u>\$ 207</u>	<u>\$ 207</u>	<u>\$ 207</u>

**NOTE 10. PREVENTIVE ESTIMATE FOR LOAN RISKS**

In accordance with the Rules for Rating the Loan Portfolio for Development Banking Institutions, the loan portfolio under the responsibility of the Federal Government and taking a discount from development banking institutions is not subject to the creation of preventive estimates, since these entities assume the credit risk. The balance of the loan portfolio and that of contingent operations subject to a rating are controlled in memorandum accounts and evaluated, based on the methodologies established by the Commission. The estimate for credit risks recorded at December 31, 2013 is summarized as follows:

Risk	Amount of liabilities	Estimate of the provision	
		% of allowance	Amount
<b>2013</b>			
A	\$ 149,965	0.00 - 0.99	\$ 763
B	14,254	1.00 - 19.99	868
C	7	20.00 - 59.99	-
D	1,572	60.00 - 89.99	732
E	160	90.00 - 100.00	159
Rated portfolio	165,958		2,522
Exempted portfolio:			
Federal Government	2,439		-
Additional reserve	-		733
Subsidiaries	-		249
	<u>\$ 168,397</u>		<u>\$ 3,504</u>
<b>2012</b>			
A	\$ 134,066	0.00 - 0.99	\$ 700
B	17,950	1.00 - 19.99	1,309
C	3	20.00 - 59.99	2
D	1	60.00 - 89.99	-
E	220	90.00 - 100.00	220
Rated portfolio	152,240		2,231
Less: Counter-guaranties received in cash	-		(1)
	<u>152,240</u>		<u>2,230</u>

Risk	Amount of liabilities	Estimate of the provision	
		% of allowance	Amount
Exempted portfolio:			
Federal Government	4,524		-
Additional reserve	-		84
Subsidiaries	-		202
	<u>\$ 156,764</u>		<u>\$ 2,516</u>

Of the rated portfolio, \$1 was reduced from the commercial portfolio rated with an E risk, for which the pertinent reserve was not created since the Institution has the counter guarantees received in cash at the Institution, which is presented as a loan portfolio in the respective risk rating in the accounting records.

At December 31, 2013 and 2012, the preventive estimate for credit risks amounts to \$51 and \$3, respectively, which correspond to the total interest in arrears account.

At those same dates, the preventive estimate for credit risks by type of credit is summarized as follows:

	<u>2013</u>	<u>2012</u>
Specific estimates:		
Loan portfolio:		
Business or commercial activity credits	\$ 188	\$ 384
Consumer lending	3	3
Housing lending	9	11
Loans to financial entities	2,280	1,773
Loans to government entities	31	45
	<u>2,511</u>	<u>2,216</u>
Contingent portfolio:		
Guarantees by endorsement executed	11	14
Additional estimates	733	84
Subsidiaries	249	202
Total	<u>\$ 3,504</u>	<u>\$ 2,516</u>

The movements of the preventive estimate for credit risks are presented below:

	<u>2013</u>	<u>2012</u>
Balances at January 1	\$ 2,516	\$ 2,380
Increases:		
Discounts on recovery of debts	5	14
Creation of reserves for credit risks (a)	1,394	219
	<u>3,915</u>	<u>2,613</u>
Applications:		
Discounts on recovery of debts	5	14
Reversal of surplus reserves	401	77
Write-off of credit debts	5	1
Slippage of the foreign currency reserve	-	5
Balances at December 31, 2013 and 2012	<u>\$ 3,504</u>	<u>\$ 2,516</u>

- (a) It includes the initial effect of adopting the new methodology established by the Commission, which generated a decrease in the preventive estimate for credit risks in the amount of \$904. Foreseeing that the Institution should prudentially increase the preventive estimate prudentially, it was decided to create additional reserves from the surplus generated in the amount of \$686. Both effects were recognized in income, in accordance with the provisions set forth by the Commission. Moreover, during fiscal 2013, the increase in the preventive estimate amounted to \$1,612.

#### NOTE 11. OTHER RECEIVABLES, NET

At December 31, 2013 and 2012, other receivables are summarized as follows:

	<u>2013</u>	<u>2012</u>
Loans to Institution personnel	\$ 2,144	\$ 2,122
Clearing accounts	327	33
Other receivables	49	70
Receivables for fees on current trading activities	88	92
Other receivables from subsidiaries	194	242
Estimates for write-offs of other receivables	(30)	(58)
Total	<u>\$ 2,772</u>	<u>\$ 2,501</u>

#### NOTE 12. REPOSSESSED ASSETS, NET

At December 31, 2013 and 2012, repossessed assets are summarized as follows:

	<u>2013</u>	<u>2012</u>
Real property	\$ 37	\$ 38
Securities	20	20
	57	58
Allowances (provisions) for write-offs	(34)	(31)
Total	<u>\$ 23</u>	<u>\$ 27</u>

Write-offs related to repossessed assets recorded in income as of December 31, 2013 and 2012 amount to \$5 and \$3, respectively.

In conformity with the Provisions, additional allowances (provisions) have been recognized for holding repossessed assets or out-of-court proceedings or received as a dation in payment.

#### NOTE 13. PROPERTY, FURNITURE AND EQUIPMENT, NET

At December 31, 2013 and 2012, property, furniture and equipment are summarized as follows:

Item	2013			2012
	Investments			Total
	Historical	Restatement	Total	
Building	\$ 290	\$ 1,516	\$ 1,806	\$ 1,829
Furniture and equipment	129	97	226	222
Computer equipment	20	10	30	29
Land	13	436	449	456
Subtotal	452	2,059	2,511	2,536
Accumulated depreciation	(216)	(713)	(929)	(913)
Total	\$ 236	\$ 1,346	\$ 1,582	\$ 1,623

Depreciation expensed in fiscal years 2013 and 2012 for depreciation amounted to \$34 and \$36, respectively.

#### NOTE 14. OTHER INVESTMENTS

At December 31, 2013 and 2012, other permanent investments are summarized as shown below:

	2013	2012
Trust placed on Intermediate Securities Market	\$ 2	\$ 2
Technical Assistance S&ME Financing Programs Trust	6	10
Mexico Design Center Sponsorship Trust	17	17
Eurocentro Nafin-Mexico Trust	5	2
Total	\$ 30	\$ 31

#### NOTE 15. PERMANENT INVESTMENTS

At December 31, 2013 and 2012, stock in permanent investments are summarized as shown below:

	2013	2012
Corporacion Andina de Fomento	\$ 1,790	\$ 1,775
Shares of other companies	28	21
	1,818	1,796
Investment of subsidiary companies	3,799	2,879
Total	\$ 5,617	\$ 4,675

#### NOTE 16. TERM DEPOSITS

At December 31, 2013 and 2012, the terms to maturity of these securities are shown below:

	<u>2 0 1 3</u>	<u>2 0 1 2</u>
Less than one year	\$ 100,116	\$ 99,822
Five years	7,300	526
Ten years	153	153
	<u>107,569</u>	<u>100,501</u>
Unpaid accrued interest	1,344	1,356
	<u>\$ 108,913</u>	<u>\$ 101,857</u>

#### NOTE 17. BANK BONDS

The balance of this item for securities exchange certificates is summarized as follows:

<u>Date</u>			<u>2 0 1 3</u>	<u>2 0 1 2</u>	
<u>inception</u>	<u>Maturity</u>	<u>Rate</u>			
12/10/2010	12/6/2013	4.90%	\$ -	\$ 4,500	(f)
12/10/2010	12/4/2015	3.81%	2,500	2,500	(a)
11/22/2013	11/18/2016	3.78%	2,000	-	(b)
8/3/2012	7/22/2022	5.69%	2,000	2,000	(c)
12/10/2012	7/22/2022	5.69%	1,966	1,966	(d)
11/22/2013	3/8/2024	6.55%	2,996	-	(e)
Accrued interest payable			129	118	
			<u>\$ 11,591</u>	<u>\$ 11,084</u>	

- (a) Issue for 25 million securities with a par value of one hundred pesos each one.
- (b) Issue for 20 million securities with a par value of one hundred pesos each one.
- (c) Issue for 20 million securities with a par value of one hundred pesos each one.
- (d) Issue for 20 million securities, with a par value of one hundred pesos and thirty-four cents each one, placed under par and interest prepayments.
- (e) Issue for 30 million securities with a par value of one hundred pesos each one.
- (f) Issue for 45 million securities with a par value of one hundred pesos each one.

The yields of these instruments are referenced to the discount rates of Federal Treasury Certificates (CETES), Average Interbank Interest Rate (AIIR), and Equilibrium Interbank Interest Rate (EIRR).

#### NOTE 18. SECURITIES OUTSTANDING ABROAD

The current balances of the placements of securities realized by the Institution abroad are presented in this item, whose source currency is as follows:

Source currency	2013		2012	
	Amount in millions of source currency	Equivalence in local currency	Amount in millions of source currency	Equivalence in local currency
US dollars	985	\$ 12,891	980	\$ 12,701

At December 31, 2013 and 2012, maturities at a term less than one year amount to \$12,891 and \$12,701, respectively.

#### NOTE 19. INTERBANK LOANS AND FROM OTHER AGENCIES

This item consists mainly of credits received from foreign financial institutions at current market or preferential rates. They are summarized as follows:

	2013	2012
Multinational and governmental agencies		
World Bank	\$ 739	\$ 1,024
Inter-American Development Bank	5,995	6,035
Others	2,445	59
	9,179	7,118
Foreign banking institutions	-	2,809
Domestic banking institutions	2,379	1,555
Other loans	5,291	-
Unpaid accrued interest	33	49
	\$ 16,882	\$ 11,531

At December 31, 2013 and 2012, maturities at a term less than one year amount to \$10,308 and \$5,282, respectively.

At December 31, 2013, interbank loans and from other agencies are summarized as follows:

Financial agency	Rate	Term to maturity (residual)	Balances	
			Millions in source currency	Local Currency
<i>Local Currency:</i>				
Banco Nacional de Comercio Exterior, S.N.C.	3.5000	2 days	\$	102
Banco del Ahorro Nacional y Servicios Financieros, S.N.C.	3.5000	2 days		113
Scotiabank Inverlat, S.A.	3.5000	2 days		450
Banco Internacional S.A.	3.5000	2 days		1,600
Banco Ve Por Mas, S.A. (formerly Factoring Comercial America, S.A. de C.V.)	3.2500	2 days		14

Financial agency	Rate	Term to maturity (residual)	Balances	
			Millions in source currency	Local Currency
Banco Multiva, S.A. Full Service Banking Institution	3.3000	2 days		1,000
Banco Actinver, S.A., Institucion de Banca Multiple (Full-Service Bank), Grupo Financiero Actinver	3.2500	2 days		270
Banco Mifel investments	3.3000	2 days		200
Banco Firme investments	3.3500	2 days		240
JP Morgan, investments Local Currency	3.5000	2 days		984
Bank Of America M.N. Investments Local Currency	3.5000	2 days		200
Banco Azteca, S.A. Full Service Banking Institution	3.5000	2 days		20
				<u>5,193</u>
<i>US dollars:</i>				
N F Ctf Birt 98062 Electrodomeestic Substitution Program	0.7500	17 years	50	654
N F Bid Cclip 2226 Oc Me Pemex S&ME Development	1.1400	22 years	100	1,309
N F Bid 2671 Oc Me Unemployment Support Program of Mexico	1.1400	23 years	50	654
2631 Tc Me Renewable Energy Financing Program	0.7500	19 years	70	916
N.F.Bid Cclip 2843/Oc-Me Credit Line Program Condiciona Me-X1010	1.1400	25 years	64	835
Corporacion Andina de Fomento	0.2436	1 month	50	654
Corporacion Andina de Fomento	0.2461	1 month	50	654
Corporacion Andina de Fomento	0.2381	2 months	75	982
Official Institute of Credit of Spain	1.2500	10 years	1	11
Official Institute of Credit of Spain	1.2500	8 years	4	52
Official Institute of Credit of Spain	1.5000	8 years	3	43
Kreditanstalt für Wiederaufbau Frankfurt	2.7300	9 years	39	510
Kreditanstalt für Wiederaufbau Frankfurt	1.3600	9 years	26	340
Standard Chartered Bank	0.1683	3 days	40	523
Standard Chartered Bank	0.2070	1 month	20	262
Standard Chartered Bank	0.1640	17 days	30	393
Banco Nacional de Comercio Exterior, S.N.C.	0.3494	4 years	8	98
				<u>8,890</u>
<i>Euros:</i>				
Natexis Banque	2.0000	10 years	0	8
Natexis Banque	2.0000	3 years	3	52
Natexis Banque	2.0000	6 years	1	13
Kreditanstalt für Wiederaufbad Frankfurt	1.3800	9 years	10	174
Kreditanstalt für Wiederaufbad Frankfurt	1.3700	9 years	2	30

<u>Financial agency</u>	<u>Rate</u>	<u>Term to maturity (residual)</u>	<u>Balances</u>	
			<u>Millions in source currency</u>	<u>Local Currency</u>
Kreditanstalt für Wiederaufbau Frankfurt	1.2800	9 years	2	37
Kreditanstalt für Wiederaufbau Frankfurt	1.3200	9 years	2	36
				350
Interest				10
Total				\$ 14,443
<i>Financial Broker:</i>				
<i>US dollars:</i>				
International Bank For Reconstruction and Development	5.0159	3 months	7	\$ 85
Inter-American Development Bank	2.1300	2 years	50	654
Inter-American Development Bank	3.6600	19 days	13	170
Inter-American Development Bank	3.9220	2 years	57	752
Inter-American Development Bank	4.0340	2 years	46	604
				2,265
<i>Euros:</i>				
Inter-American Development Bank	3.0000	7 years	6	102
				102
<i>Special draft fees:</i>				
International Agricultural Development Fund Mexico City, Mexico	0.8500	5 years	2	49
				49
Interest				23
Total				\$ 2,439
Total				\$ 16,882

At December 31, 2012, interbank loans and from other agencies are summarized as follows:

<u>Financial agency</u>	<u>Rate</u>	<u>Term to maturity (residual)</u>	<u>Balances</u>	
			<u>Millions in source currency</u>	<u>Local Currency</u>
<i>Local Currency:</i>				
Banco Ve por Mas, S.A.	4.2	2 days	\$	5
Bank of Tokyo, Investments Local Currency	4.2	2 days		271
JP Morgan, investments Local Currency	4.3	2 days		765
				1,041
<i>US dollars:</i>				
Banco Nacional de Comercio Exterior, S.N.C.	1.4844	4 years	9.6	125
Official Institute of Credit of Spain	1.5	9 years	3.7	48

<u>Financial agency</u>	<u>Rate</u>	<u>Term to maturity (residual)</u>	<u>Balances</u>	
			<u>Millions in source currency</u>	<u>Local Currency</u>
Official Institute of Credit of Spain	1.25	9 years	4.5	58
Official Institute of Credit of Spain	1.25	11 years	0.9	12
Kreditanstalt für Wiederaufbau Frankfurt	2.73	10 years	39	505
Kreditanstalt für Wiederaufbau Frankfurt	1.36	10 years	26	337
Standard Chartered Bank	0.7317	30 days	20	259
Standard Chartered Bank	0.753	2 months	100	1,297
Inter-American Development Bank	0.75	24 years	50	648
Inter-American Development Bank	0.99	22 years	99	1,284
International Bank for Reconstruction	0.99	18 years	50	648
Banco Azteca, S.A.	0.28	7 days	30	389
				<u>5,610</u>
<i>Euros:</i>				
Natexis Banque	2	10 years	0.5	8
Natexis Banque	2	7 years	0.9	15
Natexis Banque	2	4 years	4	70
Kreditanstalt für Wiederaufbau Frankfurt	1.38	10 years	11.7	200
				<u>293</u>
				<u>3</u>
Interest				<u>\$ 6,947</u>
Total				
<i>Financial Broker:</i>				
<i>US dollars:</i>				
Inter-American Development Bank	2.01	3 years	75 \$	973
Inter-American Development Bank	2.0101	3 months	1.2	15
Inter-American Development Bank	3.446	1 year	38.9	505
Inter-American Development Bank	3.702	2 years	95.8	1,243
Inter-American Development Bank	3.814	2 years	76.9	997
Inter-American Development Bank	4.0986	2 months	20	259
International Bank for Reconstruction	4.5857	1 year	29	376
				<u>4,368</u>

<u>Financial agency</u>	<u>Rate</u>	<u>Term to maturity (residual)</u>	<u>Balances</u>	
			<u>Millions in source currency</u>	<u>Local Currency</u>
<i>Euros:</i>				
Inter-American Development Bank	3	7 years	6.5	111
				<u>111</u>
<i>Special Draft Fees:</i>				
International Agricultural Development Fund	1.08	6 years	2.9	59
				<u>59</u>
<i>Interest</i>				
Total			\$	<u>4,584</u>
Total			\$	<u>11,531</u>

The accounts of credits obtained not yet drawn down (Note 27) represents the lines of credit granted to the Institution not exercised at year end, as itemized below:

	<u>2013</u>	<u>2012</u>
Bank of Mexico	\$ 454	\$ 453
Kreditanstalt Für Wiederaufbau Frankfurt	581	552
BID Washington, DC	-	13
Inter-American Development Bank	474	908
Subsidiaries	7,486	-
	<u>\$ 8,995</u>	<u>\$ 1,926</u>

#### NOTE 20. OTHER PAYABLES

At December 31, 2013 and 2012, this item is comprised of the following reserves and provisions:

	<u>2013</u>	<u>2012</u>
Other liabilities	\$ 400	\$ 401
Taxes on earnings payable	521	534
Employee profit sharing payable	152	164
Provisions for other items	80	69
Payables under memorandum accounts	208	-
Clearing accounts	681	348
Security deposits	4	4
	<u>\$ 2,046</u>	<u>\$ 1,520</u>

**NOTE 21. LABOR OBLIGATIONS**

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

On the other hand, the Transition Articles of the GWC dated August 12, 1994 set forth that workers who joined the Institution prior to the above date and reach 55 years of age and have completed 30 years of service, 60 years of age, and completed 5 years of seniority will be eligible for a pension in the terms of the GWC referred to above.

In the event of an unjustified dismissal or termination of the employer-employee relationship, the worker may choose to receive the pertinent indemnification or a retirement annuity calculated based on the main characteristics of the retirement plan discussed paragraph one if the worker is 50 years old and has 16 or more years of seniority.

Transition Article Five paragraph a) of the GWC, 2006 review, sets forth that persons who have obtained a pension for disablement, disability or retirement at a date prior to that review and those workers who have joined the Institution at a date prior to the effectiveness of the above review to whom the Defined Retirement Benefit Plan applies will continue to enjoy the right to receive the following additional benefits from the Institution at the time when they retire:

- Short-term loans, medium-term loans, and Special Loan for Savings, which will be paid with a charge to administration and promotion expenses with an 18% net guaranteed return of the maximum capacity to invest that will be calculated on 41.66% of the net monthly pension multiplied by 72 months, as well as the available capacity that will be over 50% of the net pension, less the month deductions from the short and medium-term loans with capital and interest multiplied by 72 months, with a 41.66% cap or ceiling of the monthly net pension. The Special Loan for Savings will accrue a 1% rate annual interest on its amount, which will be withheld by the Institution.

The net cost for the period applied to income at December 31, 2013 and 2012 amounted to \$979 (including \$21 of the defined contribution) and \$365 (including \$19 of the defined contribution), respectively, including the effect of other postretirement benefits.

As of December 31, 2013 and 2012, the fund for labor obligations amounts to \$6,314 and \$6,688, respectively, and it is invested in an irrevocable trust created in the Institution.

In accordance with the provisions of FRS D-3 "Employee benefits", the Institution recognized the effect of liabilities for "Other postretirement benefits" in its financial statements. At December 31, 2013, the net cost of the period recorded in income of the Institution amounted to \$912, and the liability for the same item amounted to \$7,655.

Following is a summary of the actuarial calculations as of December 31, 2013:

Item	Retirement	Seniority premium	Other benefits at retirement	Special Loan for Savings (SLS) and Financial Cost of Credits
	Retirement	Retirement and termination	Retirement	Retirement
Journal voucher for the recognition of losses and gains	Deferred amortization			
General description of benefits	In accordance with general labor conditions			
Vested Benefit Obligation	\$ 6,442	\$ 5	\$ 5,370	\$ 2,833
<b>Reconciliation between the value of the Defined Benefit Obligation (DBO) and Plan assets (PA) with the Reserve or Project net Liability (PNP) at year end (a)</b>				
A. Defined Benefit Obligations (DBO)	\$ 6,949	\$ 34	\$ 5,978	\$ 3,433
B. Plan Assets (PA)	6,331	33	5,031	2,773
C. Funded Status (A-B)	618	1	947	660
D. Actuarial gains / (losses)	(674)	(3)	(935)	(682)
Net projected Liability / (Asset) at year end (PNP) (C+D)	\$ (56)	\$ (2)	\$ 12	\$ (22)
Amortization periods of unamortized items	N/A	5.27	5.27	N/A
Transition liability amortization period	N/A	N/A	N/A	N/A
Prior service amortization period	N/A	N/A	N/A	N/A
<b>Net Cost for the Period 2013 (b)</b>				
A. Labor Cost	\$ 31	\$ 2	\$ 35	\$ 34
B. Financial Cost	404	2	338	198
C. Returns on Assets	(389)	(2)	(290)	(171)
D. Amortization PPA	-	-	735	33
<b>Net cost for the Period</b>	<b>\$ 46</b>	<b>\$ 2</b>	<b>\$ 818</b>	<b>\$ 94</b>
<b>Main hypothesis used:</b>				
	<b>(a)</b>	<b>(b)</b>		
	<b>31-Dec-13</b>	<b>31-Dec-12</b>		
Discount rate	6.25%	6.00%		
PA Rate of return	6.25%	6.00%		
Rate of general wage increase	4.00%	4.00%		
Rate of minimum wage increase	3.50%	3.50%		
Medical inflation rate	7.00%	6.00%		

- (a) Actuarial values determined at 2013 year end were determined by the Farell Grupo de Consultoria firm by considering the hypotheses of December 31, 2013.
- (b) The hypotheses of December 31, 2012 were used to determine the net cost of the period of 2013.

Following is a summary of the actuarial calculations as of December 31, 2012:

Item	Other benefits at retirement			
	Retirement plan	Seniority premium	Medical service, savings fund, insurance, athletic club	Special Loan for Savings (PEA) and Financial Cost of Credits
	Retirement	Retirement and termination	Retirement	Retirement
<b>Actuarial (gain) / loss (c)</b>				
Actuarial (gain) / loss at December 31, 2011	\$ 167	\$ 3	\$ 898	\$ 696
Actuarial (gain) / loss, net	-	-	(30)	(56)
Actuarial (gain) / loss carryforward	\$ 167	\$ 3	\$ 868	\$ 640
Real balance of the fund at December 31, 2012	\$ (6,597)	\$ (36)	\$ (4,530)	\$ (2,884)
Estimated fund	6,287	36	4,349	2,710
Actuarial (gain) / loss on estimate of the fund	\$ (310)	\$ -	\$ (181)	\$ (174)
Real defined benefit obligations	\$ 6,581	\$ 34	\$ 5,579	\$ 3,248
Estimated defined benefit obligations	(6,398)	(35)	(5,229)	(3,328)
Actuarial (Gain) / loss on estimate of the DBO without early retirements	\$ 183	\$ (1)	\$ 350	\$ (80)
Effect of rate change				
Total actuarial (gain) / loss for the period	\$ (127)	\$ (1)	\$ 169	\$ (254)
Recognition of rate change				
Total actuarial (gain) / loss	\$ 40	\$ 2	\$ 1,037	\$ 386
<b>Actuarial (gain) / loss, net</b>				
Actuarial (Gain) / Loss on excess of band fluctuation	\$ -	\$ -	\$ 480	\$ 62
Amortization period	\$ 6	\$ 10	\$ 11	\$ 6
Actuarial (gain) / loss, net	\$ -	\$ -	\$ 42	\$ 10

- (c) Actuarial values determined at 2012 year end were determined by the Bufete Matemático Actuarial, S.C. firm and Prevención de Contingencia, S.A.

At December 31, 2013 and 2012, the general information of the pension and retirement plan is:

	<u>2013</u>	<u>2012</u>
Number of employees	976	971
Annual base payroll	\$ 237	\$ 234
Annual computed payroll	\$ 429	\$ 427
Average current age	45.76	45.66
Average seniority	16.17	16.48
Number of pensioners	1,483	1,474
Annualized pension payroll	\$ 412	\$ 391
Average current age	69.07	68.43

### Statement of status

As of December 31, 2013 and 2012, the statement of status is as follows:

	<u>Retirement pension plan</u>	<u>Seniority premium</u>	<u>Other benefits at retirement</u>	<u>PEA and financial cost of credits</u>
			<u>Medical service, savings fund, insurance, athletic club</u>	
<b>2013</b>				
Defined benefit obligation	\$ 6,949	\$ 34	\$ 5,978	\$ 3,433
Plan assets	(6,331)	(33)	(5,031)	(2,773)
Defined benefits obligation in excess of the plan assets	618	1	947	660
Actuarial (gain) / loss carryforward	(674)	(3)	(935)	(682)
Projected net (Liability) / Asset	\$ (56)	\$ (2)	\$ 12	\$ (22)
<b>2012</b>				
Defined benefit obligation	\$ (6,581)	(34)	(5,579)	(3,248)
Plan assets	6,597	36	4,530	2,884
Defined benefits obligation in excess of the plan assets	16	2	(1,049)	(364)
Actuarial (gain) / loss carryforward	40	3	1,037	386
Projected net (Liability) / Asset	\$ 56	\$ 5	\$ (12)	\$ 22

### Reconciliation of the book provision

At those same dates, the reconciliation of the book provision is as follows:

	<b>Other benefits at retirement</b>			
	<b>Retirement pension plan</b>	<b>Seniority premium</b>	<b>Medical service, savings fund, insurance, athletic club</b>	<b>PEA and financial cost of credits</b>
<b>2013</b>				
Balance at beginning of year	\$ 56	\$ 2	\$ (12)	\$ 22
Net cost for the period in accordance with FRS D-3	46	-	818	94
Contribution made to the fund	(46)	-	(818)	(94)
Final balance	<u>\$ 56</u>	<u>\$ 2</u>	<u>\$ (12)</u>	<u>\$ 22</u>
<b>2012</b>				
Balance at beginning of year	\$ (56)	\$ (5)	\$ 12	\$ (22)
Net cost for the period in accordance with FRS D-3	53	-	148	145
Contribution made to the fund	(53)	-	(148)	(145)
Final balance	<u>\$ (56)</u>	<u>\$ (5)</u>	<u>\$ 12</u>	<u>\$ (22)</u>

## NOTE 22. TAXES ON EARNINGS

Income Tax and IETU Regime - The Institution is subject to Income Tax and IETU in 2013 and 2012.

Income tax is calculated at a 30% rate considering certain impacts of inflation as taxable or deductible, such as depreciation calculated on constant values in constant pesos. The impact of inflation on certain monetary assets and liabilities is accumulated or deducted through the adjustment on inflation.

IETU is assessed on sales of goods, independent services rendered, and the use or temporary enjoyment of goods granted, in the terms defined in that law, less certain authorized deductions. The tax payable is calculated by reducing the credits on the losses reported from the tax determined for purposes of that tax, credit on investments, credits on salaries and subordinated personal services, and the tax due in the year. As a general rule, revenues, deductions, and certain tax liabilities are determined based on cash flows. However, the Institution determines it through the brokerage margin based on accruals with respect to the services paid and interest collected.

In accordance with the Corporate Flat Tax Law (IETU Law), the Institution will consider interest as accrued as taxable income for purposes of this tax, regardless of whether or not it is collected. This situation applies to both ordinary interest and interest in arrears.

The provision in income of IETU and Income Tax is summarized as follows:

	<u>2013</u>	<u>2012</u>
Due:		
IETU	\$ 363	\$ 389
Income Tax	78	38
	<u>\$ 441</u>	<u>\$ 427</u>
Deferred:		
IETU written off	\$ (268)	\$ -
Income Tax	238	(43)
	<u>\$ (30)</u>	<u>\$ (43)</u>

Up to 2012, the Institution identified that Income Tax would be due in some years and IETU in others. Consequently, there was no tax that would essentially be paid. Pursuant to the foregoing, the Institution calculated both deferred Income Tax and IETU. Beginning 2013, only deferred Income Tax is calculated since the IETU was repealed (see Note 33).

The main items included in the deferred tax accounts of the Institution and its subsidiaries are as follows:

	<u>2013</u>	<u>2012</u>	
	<u>Income Tax</u>	<u>Income Tax</u>	<u>IETU</u>
Liabilities:			
Investments in nondeductible fixed assets	\$ 300	\$ -	\$ 281
Accounts receivable	-	-	2
Other assets	-	-	3
	<u>\$ 300</u>	<u>\$ -</u>	<u>\$ 286</u>
Assets:			
Credit on investments in fixed assets	\$ -	\$ -	\$ (9)
Valuation of derivative financial instruments	-	-	(7)
Accounts payable	(4)	-	(1)
Provisions	-	(3)	-
Valuation of permanent investments	(32)	(57)	-
	<u>\$ (36)</u>	<u>\$ (60)</u>	<u>\$ (17)</u>
Deferred taxes (net)	<u>\$ 264</u>	<u>\$ (60)</u>	<u>\$ 269</u>

The reconciliation of the statutory rate of Income Tax, IETU, and the effective rate stated as a percentage of income before taxes on earnings is:

	<u>2013</u>	<u>2012</u>
Statutory rate	17.50%	17.50%
Add (less)		
Financial margin	4.64%	1.50%
Others	(3.14%)	2.00%
Effective rate	<u>19.00%</u>	<u>21.00%</u>

## NOTE 23. STOCKHOLDERS' EQUITY

### a) Capital stock.-

At December 31, 2013 and 2012, the Institution's capital stock is summarized as follows:

	<u>2 0 1 3</u>	<u>2 0 1 2</u>
<b>Subscribed capital:</b>		
<i>Series "A"</i>		
31,548,000 Certificates of Capital Contribution (CAPs) with a value amounting to fifty pesos each one	\$ 1,577	\$ 1,577
<i>Series "B"</i>		
16,252,000 Certificates of Capital Contribution with a value amounting to fifty pesos each one	813	813
Total subscribed for capital	<u>2,390</u>	<u>2,390</u>
<b>Unissued capital</b>		
<i>Series "A"</i>		
7,888,728 Certificates of Capital Contribution with a value amounting to fifty pesos each one	(393)	(393)
<i>Series "B"</i>		
4,053,586 Certificates of Capital Contribution with a value amounting to fifty pesos each one	(203)	(203)
Total unissued capital	<u>(596)</u>	<u>(596)</u>
<b>Subscribed for and paid-in capital stock</b>		
<i>Series "A"</i>		
23,679,272 Certificates of Capital Contribution with a value amounting to fifty pesos each one	1,184	1,184
<i>Series "B"</i>		
12,198,414 Certificates of Capital Contribution with a value amounting to fifty pesos each one	610	610
Total subscribed for and paid-in capital stock	1,794	1,794
Increase from restatement	7,011	7,011
Total	<u>\$ 8,805</u>	<u>\$ 8,805</u>

Series "A" represents 66% of the institution's capital, which may only be subscribed for by the Federal Government, and Series "B" for the remaining 34%.

**b) Contribution for future capital stock increases.-**

At its ordinary meeting held on September 27, 2012, the Board of Directors authorized the institution to carry out the necessary arrangements to request a capital contribution from the Executive Branch, through the Ministry of Finance and Public Credit (SHCP), in an amount up to \$950 required to be able to support the volume of development and investment banking operations, as well as to obtain a prudential level of capitalization for fiscal 2012 year end. The above contribution was received and recorded in October 2012.

As of December 31, 2013 and 2012, its value amounts to \$1,950.

**c) Paid stock premium.-**

This premium applies to payments made by holders of Series "B" CAPs. The balance of the premiums paid at December 31, 2013 and 2012 amounts to \$8,922.

**d) Capital reserves.-**

The nominal value of these reserves at December 31, 2013 and 2012 amounts to \$314, and its restated value at both years end amounts to \$1,730.

**e) Prior year income.-**

As of December 31, 2013 and 2012, the summary of the account balance is as follows:

	<u>2013</u>	<u>2012</u>
Gain or loss on the adjustment of changes in accounting policies by the Commission in Circular 1343.	\$ (2,860)	\$ (2,860)
Prior year income / loss	2,667	1,309
Creation of provisions for assets acquired through judicial proceedings	(260)	(260)
RETANM realized	(13)	(13)
Pension reserve, PEA, and retiree loans.	<u>(4,310)</u>	<u>(4,310)</u>
	(4,776)	(6,134)
Gain or loss on valuation in associated and affiliated companies	3,288	3,288
Adjustment on accumulated depreciation of furniture and equipment	(96)	(96)
Deferred taxes	<u>(333)</u>	<u>(333)</u>
	<u>\$ (1,917)</u>	<u>\$ (3,275)</u>

**f) Gain or loss on valuation of available-for-sale securities.-**

The adjustments derived from valuations at market of available-for-sale securities are recorded in this line item. The gain or loss is recorded as realized in income up to the fiscal year in which the security is sold or reaches maturity.

At December 31, 2013 and 2012, the gain or loss on valuation of available-for-sale securities at market is summarized as follows:

	<u>2013</u>	<u>2012</u>
Valuation of available-for-sale securities	\$ <u>14</u>	\$ <u>51</u>

**g) Effects of valuation of associated and affiliated companies.-**

As of December 31, 2013 and 2012, its value amounts to \$217 and \$36, respectively.

**h) Legal provisions.-**

On November 23, 2008, the SHCP published rules for the capitalization requirements of Full-Service Banking Institutions and National Lending Institutions, Development Banking Institutions, which went into effect beginning January 1, 2010. These capitalization rules set forth the requirements with specific levels of net capital, as a percentage of the risk assets,

both market and credit. On this particular issue at December 31, 2013, there is a 15.30% level, confirmed by BANXICO.

Cash dividends received by legal entities resident in national territory are not subject to a withholding, unless they are drawn on items other than the Net Taxable Income Account (CUFIN).

**NOTE 24. MAIN ITEMS THAT COMPRISE THE STATEMENT OF INCOME**

The main items that comprise the Institution's Income (loss) at December 31, 2013 and 2012 are as follows:

	<b>2 0 1 3</b>		
	<b>Total</b>	<b>Local currency</b>	<b>Foreign currency</b>
Interest current loan portfolio			
Commercial credits	\$ 1,391	\$ 1,302	\$ 89
Housing lending	3	3	
Loans to government entities	509	507	2
Loans granted as a (Financial) Agent of the Federal Government	110	-	110
Loans to financial entities	4,187	4,133	54
	<u>6,200</u>	<u>5,945</u>	<u>255</u>
Interest income on nonperforming loan portfolio			
Commercial credits	1	1	-
Loans to financial entities	1	1	-
Consumer lending	1	1	-
Housing lending	1	1	-
	<u>4</u>	<u>4</u>	<u>-</u>
Interest and yields earned on investments in securities			
Trading securities	213	-	213
Available-for-sale securities	105	-	105
Held-to-maturity securities	760	715	45
	<u>1,078</u>	<u>715</u>	<u>363</u>
Interest and yields earned on repurchase agreement transactions			
Repurchase transactions	11,601	11,601	-
	<u>11,601</u>	<u>11,601</u>	<u>-</u>
Interest from liquid assets			
Banks	6	-	6
Restricted liquid assets	542	535	7
	<u>548</u>	<u>535</u>	<u>13</u>
Fees income from lending transactions (adjustment on yield)			
Commercial credits	105	101	4
	<u>105</u>	<u>101</u>	<u>4</u>
Total interest income	<u>\$ 19,536</u>	<u>\$ 18,901</u>	<u>\$ 635</u>

	<b>2 0 1 3</b>		
	<b>Total</b>	<b>Local currency</b>	<b>Foreign currency</b>
Interest expenses			
Interest on term deposits	\$ 4,523	\$ 4,497	\$ 26
Interest on negotiable instruments issued	602	558	44
Interest payable on interbank loans and loans for other Agencies	221	41	180
Interest and yields payable in repurchase agreement transactions	10,237	10,237	-
	<u>15,583</u>	<u>15,333</u>	<u>250</u>
Exchange loss on appreciation	1,168	-	1,168
Total interest expense	\$ 16,751	\$ 15,333	\$ 1,418
Net interest income	\$ 2,785	\$ 3,568	\$ (783)
Gain or loss on brokerage.-			
Gain or loss on valuation at fair value and decrease on securities valued at cost			
Trading securities	\$ 1,080	\$ 1,080	\$ -
Derivative financial instruments for trading purposes	109	117	(8)
Derivative financial instruments for hedging purposes	39	(107)	146
	<u>1,228</u>	<u>1,090</u>	<u>138</u>
Valuation of coined precious metals	(1)	-	(1)
	<u>(1)</u>	<u>-</u>	<u>(1)</u>
Gain or loss on trading derivative financial instruments			
Trading securities	(448)	(448)	-
Available-for-sale	6	-	6
Derivative financial instruments for trading purposes	739	726	13
	<u>297</u>	<u>278</u>	<u>19</u>
Gain on brokerage	1,524	1,368	156
Other operating income (expenses)			
Reversal of the surplus of preventive estimates for lending risks	397	395	2
Gain on sale of repossessed assets	3	3	-
Allowance (provision) for loss on repossessed assets	(5)	(5)	-
Other losses	(24)	(24)	-
Income on loans to personnel	38	38	-
Other operating income (expenditure) items (a)	(294)	(296)	2
Other income of subsidiaries	61	61	-
	<u>\$ 176</u>	<u>\$ 172</u>	<u>\$ 4</u>

- (a) The Institution realized the payment in the amount of 400 million Mexican pesos on December 3, 2013, in conformity with the indications in official letter number 102-B-126, dated November 29, 2013, issued by the Undersecretary of Ministry and Public Credit, whereby the Federal Government instructs the Institution to realize a payment under the juridical nature of use for furnishing a sovereign guarantee of the Federal Government.

	2012		
	Total	Local currency	Foreign currency
Interest current loan portfolio			
Commercial credits	\$ 1,351	\$ 1,321	\$ 30
Housing lending	3	3	-
Loans to government entities	518	515	3
Loans granted as a (Financial) Agent of the Federal Government	182	-	182
Loans to financial entities	4,657	4,487	170
	<u>6,711</u>	<u>6,326</u>	<u>385</u>
Interest income on nonperforming loan portfolio			
Loans to financial entities	3	3	-
Consumer lending	1	1	-
Housing lending	3	3	-
	<u>7</u>	<u>7</u>	<u>-</u>
Interest and yields earned on from investments in securities			
Trading securities	231	-	231
Available-for-sale securities	55	2	53
Held-to-maturity securities	810	759	51
	<u>1,096</u>	<u>761</u>	<u>335</u>
Interest and yields earned on repurchase agreement transactions			
Repurchase transactions	13,540	13,540	-
	<u>13,540</u>	<u>13,540</u>	<u>-</u>
Interest from liquid assets			
Banks	12	-	12
Restricted liquid assets	614	608	6
	<u>626</u>	<u>608</u>	<u>18</u>
Fees income from lending transactions (adjustment on yield)			
Commercial credits	101	94	7
	<u>101</u>	<u>94</u>	<u>7</u>
Interest income from subsidiaries			
Others	10	-	10
	<u>10</u>	<u>-</u>	<u>10</u>
Total interest income	\$ <u>22,091</u>	\$ <u>21,336</u>	\$ <u>755</u>
Interest expenses			
Interest on term deposits	5,366	5,323	43
Interest on negotiable instruments issued	432	394	38
Interest payable on interbank loans and loans for other Agencies	316	64	252
Interest and yields payable in repurchase agreement transactions	12,001	12,001	-
	<u>18,115</u>	<u>17,782</u>	<u>333</u>
Exchange loss on appreciation	1,035	-	1,035
Total interest expense	\$ <u>19,150</u>	\$ <u>17,782</u>	\$ <u>1,368</u>

	<b>2 0 1 2</b>		
	<b>Total</b>	<b>Local currency</b>	<b>Foreign currency</b>
Net interest income	\$ 2,941	\$ 3,554	\$ (613)
Gain or loss on brokerage.-			
Gain on valuation at fair value and decrease on securities valued at cost			
Trading securities	\$ 260	\$ 260	\$ -
Derivative financial instruments for trading purposes	(107)	(61)	(46)
Derivative financial instruments for hedging purposes	(55)	9	(64)
	<u>98</u>	<u>208</u>	<u>(110)</u>
Gain on trading derivative financial instruments			
Trading securities	320	320	-
Derivative financial instruments for trading purposes	603	580	23
	<u>923</u>	<u>900</u>	<u>23</u>
Gain or loss on brokerage	\$ 1,021	\$ 1,108	\$ (87)
Other operating income (expenses)			
Reversal of the surplus of preventive estimates for lending risks	\$ 71	\$ 67	\$ 4
Application of allowance for uncollectible or doubtful accounts	(1)	(1)	-
Gain on sale of repossessed assets	6	6	-
Allowance (provision) for loss on repossessed assets	(3)	(3)	-
Other losses	(8)	(8)	-
Income on loans to personnel	40	40	-
Other operating income (expenditure) items (b)	(1,601)	(1,603)	2
Other income of subsidiaries	119	119	-
	<u>\$ (1,377)</u>	<u>\$ (1,383)</u>	<u>\$ 6</u>

(b) The Institution realized the payment in the amount of 1 billion 800 million Mexican pesos on October 2, 2012, in conformity with the indications in official letter number 102-B-146, dated, September 25, 2012, issued by the Undersecretary of Ministry and Public Credit, whereby the Federal Government instructs the Institution to realize a payment of use for furnishing a sovereign guarantee of the Federal Government.

## **NOTE 25. COMMITMENTS AND CONTINGENCIES**

### **Guarantees by endorsement executed**

At December 31, 2013 and 2012, the Institution has guarantees by endorsements furnished amounting to \$565 and \$518, respectively, which represent a contingent risk in the event that the secured debtor liquidates his debt to the lending institution. At December 31, 2013 and 2012, losses on guarantees have not been recorded in income of the Institution. However, in the event of nonperformance by any secured drawer, the Institution grants a credit to meet its obligation. During fiscal 2013, no credits have been granted for nonperformance.

### Contingent assets and liabilities

At December 31, 2013 and 2012, this item amounting to \$36,858 and \$31,533, respectively, is summarized as follows:

	<u>2013</u>	<u>2012</u>
Contingent liabilities:		
Guarantees furnished	(a) \$ 47,222	\$ 40,900
Receivables on claims	404	494
Commitments acquired	105	104
	<u>47,731</u>	<u>41,498</u>
Contingent assets:		
Counter-guaranty received from the Counter-guaranty Trust for Enterprise Financing	(b) 10,558	9,707
Unrecovered guaranties paid without a counter-guaranty	(c) 315	258
	<u>10,873</u>	<u>9,965</u>
Total	\$ <u>36,858</u>	\$ <u>31,533</u>

- (a) In the item of guarantees furnished, the institution has mainly guarantees furnished through the Fund for Risk Equity which present an amount of guarantees furnished amounting to \$45,985 and \$39,438, respectively, at December 31, 2013 and 2012. These guarantees represent the amount of liabilities assumed by the Institution for guaranteeing financial brokers the recovery of their loan portfolio.
- (b) The Fund for Risk Equity reduces the Institution's contingency through a counter-guaranty that it receives from the Counter-guaranty Trust for Enterprise Financing, the promoter of granting credits for specific purposes, which has assigned funds for these purposes in the amount of \$10,558 and \$9,707, respectively, at December 31, 2013 and 2012. These funds assure the recovery up to these amounts of the guarantees exercised by financial brokers, who assume the commitment of negotiating the recovery of the credits of their final borrowers judicially and out-of-court.

In addition to that counter-guaranty, the Fund has created a preventive estimate for credit risks at December 31, 2013 and 2012 in the amount of \$249 and \$202, respectively, in terms of the provisions set forth by the Commission.

Having received the counter-guaranty, as well as the level of preventive estimate created, the Institution considers that exposure is covered and supports it in the experience observed in the guarantee program.

- (c) The item of unrecovered guarantees without a counter-guaranty, the amount of guarantees honored by the institution have been recognized that are in the process of being recovered by financial brokers that was not covered by the Counter-guaranty Trust for Enterprise Financing.

### Credit commitments

At December 31, 2013 and 2012, the Institution has lines of credit and lines of guarantees furnished to financial brokers by the Institution that have not been drawn down in the amount of \$66,526 and \$50,503, respectively. At December 31, 2013 and 2012 the amount of \$29,301 applies to lines of credit and \$37,225 to lines of guarantees furnished, respectively, whereas at December 31, 2012, the amount of \$26,200 applies to lines of credit and \$24,303 to lines of guarantees furnished, respectively.

### NOTE 26. ASSETS PLACED IN TRUST, MANDATE, AND FINANCIAL AGENT OF THE FEDERAL GOVERNMENT

At December 31, 2013 and 2012, the balances of transactions in which the Institution acts as a Trustee are summarized as follows:

	<u>2013</u>	<u>2012</u>
Investment trust	\$ 14,540	\$ 16,092
Management trust	849,512	698,495
Trust deeds	<u>52,476</u>	<u>44,640</u>
	916,528	759,227
Mandates	<u>19,859</u>	<u>39,957</u>
	936,387	799,184
Financial Agent of the Federal Government	<u>202,512</u>	<u>176,823</u>
Total	<u>\$ 1,138,899</u>	<u>\$ 976,007</u>

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

The deeds of trust apply to entities that maintain credits, securities, real properties, etc. as part of its assets held in trust that serve as a guarantee for the liquidation of financing received the trustors thereof from other lending institutions. The Institution only acts as a trustee in those entities.

The Institution's revenues from trustee activities at December 31, 2013 and 2012 amounted to \$164 and \$161, respectively.

At December 31, 2013 and 2012, trust accounts include a balance amounting to \$479 and \$505, respectively, that apply to the patrimony of the Portfolio Recovery Trust (FIDERCA), which manages doubtful accounts that were originally the Institution's and were transferred to the Federal Government in the course of 1996. The Institution currently holds the respective beneficiary interests.

The Institution created the trust to strengthen its capital, in compliance with the provisions set forth in Article 55 Bis of the Lending Institutions Law, and in conformity with the general rules that both Domestic Lending Institutions and Development Banking Institutions should be subject to in order for them to operate, published in the Official Daily Gazette on October 24, 2002.

**NOTE 27. Other memorandum accounts**

As of December 31, 2013 and 2012, balances of other memorandum accounts are summarized as follows:

	<u>2013</u>	<u>2012</u>
Unrecovered guaranties paid covered by a counter-guaranty (a) \$	8,907	\$ 7,079
Guarantees paid reported by brokers as uncollectible without a counter-guaranty (b)	20	20
Classification by degree of loan portfolio risk	168,397	156,764
Credits obtained not yet drawn down (Note 19)	8,995	1,926
Other memorandum accounts (c)	<u>146,258</u>	<u>109,053</u>
Total	<u>\$ 332,577</u>	<u>\$ 274,842</u>

- (a) The amount of guaranties honored by the institution that are in the process of being recovered by financial brokers that was not covered by the Counter-guaranty Trust for Enterprise Financing have been recognized in this item. As long as financial brokers do not exhaust the recovery negotiations of these guaranties, this amount represents a contingent right for the Institution for the possible recovery, as well as the contingent obligation for the possible reimbursement to the Counter-guaranty Trust for Enterprise Financing.
- (b) They correspond to the amounts of unrecovered guaranties on which collection procedures have been exhausted by the brokers, which do not have a counter-guaranty.
- (c) Memorandum accounts are included for control of renewed and restructured credits, uncollectible credits, uncollectible credits applied against the provision, mortgage-backed credits, certificates and coupons to be incinerated, VAT recorded by states, portfolio recovery, issue of provisional certificates, assets acquired through judicial proceedings or received as written-off payment preventively, control of amounts contracted in repurchase agreements and derivative instruments, preventive reserves of portfolio financial brokers, and various unspecified items

Beginning fiscal 2013, the Institution does not include the amounts applicable to the control of maturities of loan portfolios and liabilities, since the Commission does not require them to be recognized in memorandum accounts. This same effect was applied to 2012 for comparative purposes.

**NOTE 28. SEGMENT INFORMATION**

The factors used for identifying business segments considered the nature of the activities realized, the existence of specific administrators for those activities, the generation of revenues and expenses thereof, as well as the follow-up regularly performed on the results generated that are presented regularly to the Board of Directors of the Institution.

At December 31, 2013, assets and liabilities and income of the main operations of the Institution's business segments are presented below:

Business segments	Assets		Liabilities and Capital		Income		Expenses		Net income (expense)
	Amount	Equity	Amount	Equity	Amount	Equity	Amount	Equity	Amount
Markets and treasury	\$ 223,819	63.60%	\$ 223,819	63.60%	\$ 1,754	27.70%	\$ 458	10.00%	\$ 1,296
First tier credit	24,119	6.80%	24,119	6.80%	463	7.30%	(60)	(1.20%)	523
Second tier credit	94,050	26.70%	94,050	26.70%	1,794	28.30%	1,717	37.60%	77
Loan guarantees	-	-	-	-	1,592	25.10%	693	15.20%	899
Financial broker	2,439	0.70%	2,439	0.70%	250	4.00%	120	2.60%	130
Trustee	-	-	-	-	173	2.70%	164	3.60%	9
Other areas	7,730	2.20%	7,730	2.20%	309	4.90%	85	1.90%	224
Use and expense of retirees	-	-	-	-	-	-	1,378	30.30%	(1,378)
Total	\$ 352,157	100.00%	\$ 352,157	100.00%	\$ 6,335	100.00%	\$ 4,555	100.00%	\$ 1,780

The segment of markets and treasury includes investments realized in money, capital, exchange and treasury markets.

The loan portfolio placed directly with the public sector and private sector was considered for the first tier credit segment, whereas the loan portfolio channeled through bank and non-bank financial brokers was considered for the second tier credit.

Guarantees furnished to banks and non-bank financial brokers are included in the segment of credit guarantees. The balances of this segment are presented in memorandum accounts that amount to \$45,985 at December 31, 2013.

The balances of the financial agent segment apply to activities realized by Federal Government Law, in order to manage funds obtained from international financial agencies in its name. At December 31, 2013, they present a balance in the amount of \$204,951, of which the amount of \$202,512 is recorded in memorandum accounts.

Proprietary and external trust management services are included in the Trustee segment, which at December 31, 2013 amount to \$936,387 and are presented in memorandum accounts.

Everything relative to investment banking and balances of subsidiaries are included in the segment of other areas. As an investment bank, credit restructuring fees are handled for security market guarantees, as well as gains or losses on equity in risk capital of public and private companies.

Results by business segments at December 31, 2013 are presented below:

	<u>Markets and treasury</u>	<u>First tier credit</u>	<u>Second tier credit</u>	<u>Loan guarantees</u>	<u>Financial broker</u>	<u>Trustee</u>	<u>(a) Other areas</u>	<u>Use and expense of retirees</u>	<u>Total</u>
<i>Income:</i>									
Financial income, net	\$ 1,754	\$ 463	\$ 1,794	\$ 1,592	\$ 250	\$ 173	\$ 309	\$ -	\$ 6,335
<i>Expenses:</i>									
Operating expense	(309)	(53)	(592)	(286)	(106)	(153)	(62)	-	(1,561)
Operating income	1,445	410	1,202	1,306	144	20	247	-	4,774
Credit reserves and write-offs	(c) (4)	126	(1,084)	(135)	(2)	(4)	2	-	(1,101)
Retiree expense	-	-	-	-	-	-	-	(978)	(978)
Other Expenses and Taxes	(b) (145)	(13)	(41)	(272)	(12)	(7)	(25)	(400)	(915)
Net income (loss)	\$ <u>1,296</u>	\$ <u>523</u>	\$ <u>77</u>	\$ <u>899</u>	\$ <u>130</u>	\$ <u>9</u>	\$ <u>224</u>	\$ <u>(1,378)</u>	\$ <u>1,780</u>

- (a) It includes the following areas: Investment Bank, Subsidiaries and Other Income (Expenses), net.
- (b) It includes \$515 of taxes and Employee Profit Sharing.
- (c) The first tier credit includes \$148 for a release of reserves for improvement of the portfolio rating and the second tier credit includes unscheduled reserves in the amount of \$1,295, derived from the migration in the brokerage rating of the housing sector.

At December 31, 2012, assets and liabilities and income (loss) of the main operations of the Institution's business segments are presented below:

Business segments	Assets		Liabilities and Capital		Income		Expenses		Net income (expense)
	Amount	% Equity	Amount	% Equity	Amount	% Equity	Amount	% Equity	Amount
Markets and treasury	\$ 226,189	64.80%	\$ 226,189	64.80%	\$ 1,292	22.50%	\$ 388	8.90%	\$ 904
First tier credit	18,968	5.40%	18,968	5.40%	400	7.00%	90	(2.00%)	310
Second tier credit	92,057	26.40%	92,057	26.40%	1,960	34.10%	778	17.70%	1,182
Loan guarantees	-	-	-	-	1,295	22.60%	586	13.40%	709
Financial broker	4,320	1.20%	4,320	1.20%	255	4.40%	119	2.70%	136
Trustee	-	-	-	-	172	3.00%	167	3.80%	5
Other areas	7,540	2.20%	7,540	2.20%	368	6.40%	91	2.10%	277
Use and expense of retirees	-	-	-	-	-	-	2,165	49.40%	(2,165)
Total	\$ <u>349,074</u>	<u>100.00%</u>	\$ <u>349,074</u>	<u>100.00%</u>	\$ <u>5,742</u>	<u>100.00%</u>	\$ <u>4,384</u>	<u>100.00%</u>	\$ <u>1,358</u>

The segment of markets and treasury includes investments realized in money, capital, exchange and treasury markets.

The loan portfolio placed directly with the public sector and private sector was considered for the first tier credit segment, whereas the loan portfolio channeled through bank and non-bank financial brokers was considered for the second tier credit.

Guarantees furnished to banks and non-bank financial brokers are included in the segment of credit guarantees. The balances of this segment are presented in memorandum accounts that amount to \$39,438 at Monday, December 31, 2012.

The balances of the financial agent segment apply to activities realized by Federal Government Law, in order to manage funds obtained from international financial agencies in its name. At Monday, December 31, 2012, they present a balance in the amount of \$181,143, of which the amount of \$176,823 is recorded in memorandum accounts.

Proprietary and external trust management services are included in the Trustee segment, which at Monday, December 31, 2012 amount to \$799,184 and are presented in memorandum accounts.

Everything relative to investment banking and balances of subsidiaries are included in the segment of other areas. As an investment bank, credit restructuring fees are handled for security market guarantees, as well as gains or losses on equity in risk capital of public and private companies.

Results by business segments at Monday, December 31, 2012 are resented below:

	<u>Markets and treasury</u>	<u>First tier credit</u>	<u>Second tier credit</u>	<u>Loan guarantees</u>	<u>Financial broker</u>	<u>Trustee</u>	<u>(a) Other areas</u>	<u>Use and expense of retirees</u>	<u>Total</u>
<i>Income:</i>									
Financial revenues, net	\$ 1,292	\$ 400	\$ 1,960	\$ 1,295	\$ 255	\$ 172	\$ 368	\$ -	\$ 5,742
<i>Expenses:</i>									
Operating expense	(302)	(49)	(572)	(270)	(101)	(152)	(62)	-	(1,508)
Operating income	990	351	1,388	1,025	154	20	306	-	4,234
Credit reserves and write-offs	(c) (2)	(15)	(86)	(72)	(1)	(3)	(4)	-	(183)
Retiree expense	-	-	-	-	-	-	-	(365)	(365)
Other Expenses and Taxes	(b) (84)	(26)	(120)	(244)	(17)	(12)	(25)	(1,800)	(2,328)
Net income (loss)	\$ <u>904</u>	\$ <u>310</u>	\$ <u>1,182</u>	\$ <u>709</u>	\$ <u>136</u>	\$ <u>5</u>	\$ <u>277</u>	\$ <u>(2,165)</u>	\$ <u>1,358</u>

(a) It includes the following areas: Investment Bank, Subsidiaries and Other Income (Expenses), net.

(b) It includes \$638 of taxes and Employee Profit Sharing.

**NOTE 29. COMPREHENSIVE INCOME**

The determination of the Institution's comprehensive income for the years ended December 31, 2013 and 2012 is presented below:

	<u>2013</u>	<u>2012</u>
Net income for the year	\$ 1,780	\$ 1,358
Effect of items recognized in stockholders equity that have not affected income (loss)		
Gain on valuation of available-for-sale securities	(37)	(6)
Effects of valuation in associate and affiliate companies	181	30
Effect on translation	-	(96)
Non-holding company equity	110	74
	<u>254</u>	<u>2</u>
Comprehensive income	<u>\$ 2,034</u>	<u>\$ 1,360</u>

**NOTE 30. CAPITALIZATION RATIO**

At December 31, 2013 and 2012, the calculation of the capitalization ratio was set at 15.30% and 16.35%, which incorporated starting with net capital amounting to \$19,823 and assets adjusted for total risks amounting to \$129,562.

**a) Basic and Complementary Capital**

The Institution's net capital consists of \$19,411 of basic capital. That amount corresponds to basic capital 1 and supplementary capital in the amount of \$412.

Capital items	Impact on net capital (Art. 2 bis 9, of the Provisions)					
	With no adjustment on recognition of capital		Adjustment on recognition of capital	With an adjustment on recognition of capital		% APSRT
		% APSRT				
Basic capital 1	\$ 19,411	\$ 14.98%	\$ -	\$ 19,411	\$ 14.98%	
Basic capital 2	-	-	-	-	-	
Basic capital	19,411	14.98%	-	19,411	14.98%	
Complementary capital	412	0.32%	-	412	0.32%	
Net capital	\$ 19,823	\$ 15.30%	\$ -	\$ 19,823	\$ 15.30%	
Weighted assets subject to total risk (APSRT)	\$ 129,562	Not applicable	\$ Not applicable	\$ 129,562	Not applicable	Not applicable
Capitalization ratio	15.30%	Not applicable	Not applicable	15.30%	Not applicable	Not applicable

**b) Assets adjusted for market risks**

Assets adjusted for market risks amount to \$48,741 and are equivalent to a capital requirement amounting to \$3,899, which are summarized as follows:

**Positions exposed to market risk by the risk factor**

Item	Amount of equivalent positions	Capital requirement
Transactions in local currency at a nominal rate	\$ 13,026	\$ 1,042
Trades with debt securities in local currency with a surcharge and a reviewable rate	13,165	1,053
Transactions in local currency at a real rate or denominated in UDIS	14,483	1,159
Positions in UDIS or with a return based on the NCPI	68	5
Transactions in foreign currency at a nominal rate	2,949	236
Foreign exchange positions or with a yield indexed to the exchange rate	70	6
Positions in shares with a return indexed to the price of a share of group of shares	4,980	398
	\$ 48,741	\$ 3,899

**c) Assets adjusted for credit risks**

Assets adjusted for credit risks amount to \$70,200 and are equivalent to a capital requirement amounting to \$5,616. Of the foregoing, the assets adjusted for credit risks in credits and deposits amount to \$50,848, which are equivalent to a net capital amounting to \$4,068, which are summarized as follows:

**Weighted assets subject to credit risk by risk group**

Item	Assets Weighted by Risk	Capital requirement
Group III (weighted at 20%)	\$ 8,919	\$ 713
Group IV (weighted at 20%)	1,231	98
Group VI (weighted at 75%)	166	13
Group VII_A (weighted at 20%)	2,803	224
Group VII_A (weighted at 50%)	9,223	738
Group VII_A (weighted at 100%)	25,680	2,057
Group VII_A (weighted at 120%)	229	18
Group VII_A (weighted at 150%)	76	6
Group VIII (weighted at 100%)	630	50
Group IX (weighted at 100%)	1,891	151
	\$ 50,848	\$ 4,068

**d) Assets adjusted for operating risks**

Assets adjusted for operating risks amount to \$10,622 and are equivalent to a capital requirement amounting to \$850.

### Weighted assets subject to operating risk

Assets Weighted by Risk	Capital requirement
\$10,622	\$850
Average market and credit risk requirement of the last 36 months	Average positive annual net revenue of the last 36 months
\$7,922	\$5,665

On November 28, 2012, the Resolution was published in the Official Daily Gazette that amended the Provisions to strengthen the composition of net capital of lending institutions consistently, with the most recent international consensus on that subject, in accordance with the guidelines established by the Capital Agreement issued by the Bank Supervision Committee of Basil (Basil Convention III). One of its objectives is for banking institutions at an international level raise their capacity to deal with financial and economic problems by creating increased capital and better quality.

In the terms of Basil Convention III, the Minimum Capitalization Index (MCI) is maintained at 8 percent and new minimum levels are foreseen for the elements that comprise the basic part of net capital. Accordingly, the components of basic capital (basic capital 1 and basic capital 2), in terms of the items that comprise those components of basic capital at the same time as a 2.5 percent supplement of capital conservation of the basic proprietary capital 1 on the weighted assets subject to total risks, whereby the MCI becomes 10.5 percent.

Exhibit 1-O of the Provisions sets forth the requirements for the disclosure of information relative to capitalization which, in addition to those indicated in the above paragraphs, should contain the following sections:

1. Summary of net capital in conformity with the international disclosure form contained in the document "Disclosure requirements of the composition of capital" published by the Basel Bank Supervision Committee in June 2012.

Ref.	Common capital tier 1 (CET 1) Instruments and reserves	Amount
1	Common shares that qualify for level 1 common equity plus its applicable premium	\$ 19,677
2	Prior year income	(1,917)
3	Other elements of comprehensive income (and other reserves)	3,558
6	<b>Tier 1 common equity before regulatory adjustments</b>	<b>\$ 21,318</b>
	<b>Tier 1 common equity: regulatory adjustments</b>	
8	Goodwill (net of its corresponding deferred taxes on earnings payable)	\$ -
9	Other intangibles other than fees on mortgage services (net of their corresponding deferred taxes on earnings payable)	1,003

Ref.	<b>Tier 1 common equity: regulatory adjustments</b>	<b>Amount</b>
21	Recoverable deferred taxes on earnings from temporary differences (amount that exceeds the threshold of the 10% net of deferred taxes payable)	-
26	Domestic regulatory adjustments	1,840
A	of which: Other elements of comprehensive income (and other reserves)	(34)
D	of which: Investments in multilateral agencies	448
F	of which: Investments in risk capital	1,357
G	of which: Investments in mutual funds	69
28	<b>Total regulatory adjustments to tier 1 common equity</b>	<b>\$ 2,843</b>
29	<b>Common capital tier 1 (CET 1)</b>	<b>\$ 18,475</b>
<b>Additional tier 1 capital: regulatory adjustments</b>		
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>\$ 18,475</b>
<b>Tier 2 capital: instruments and reserves</b>		
50	Reserves	\$ 12
51	<b>Tier 2 capital before regulatory adjustments</b>	<b>\$ 12</b>
<b>Tier 2 capital: regulatory adjustments</b>		
58	<b>Tier 2 capital (T2)</b>	<b>\$ 12</b>
59	<b>total capital (TC = T1 + T2)</b>	<b>\$ 18,487</b>
60	<b>Total risk weighted-assets</b>	<b>129,039</b>
<b>Capital ratios and supplements</b>		
61	Common capital tier 1 (as a percentage of the total risk-weighted assets)	14.32%
62	Tier 1 capital (as a percentage of the total risk-weighted assets)	14.32%
63	Total Capital (as a percentage of the total risk-weighted assets)	14.33%
64	Specific institutional supplement (it should at least consist of: the tier 1 common equity requirement plus the capital conservation buffer, plus the countercyclical buffer, plus the G-SIB buffer, stated as a percentage of the total risk-weighted assets)	7.00%
65	of which: Supplement of capital conservation	2.50%
66	of which: Specific bank countercycle supplement	N/A
67	of which: Supplement of systemically global important banks (G-SIB)	N/A
68	Tier 1 common equity available to cover the supplements (such as percentage of the total risk-weighted assets)	7.32%
<b>Limits applicable to the inclusion of reserves in tier 2 equity</b>		
76	Eligible reserves to be included in tier 2 equity, with respect to the exposures subject to standardized methodology (prior to the application of the limit)	12
77	Limits on the inclusion of provisions in tier 2 equity, under the standardized methodology	871

## 2. Net capital ratio with the balance sheet

Balance sheet amounts		
Reference of balance sheet items	Balance sheet items (unconsolidated)	2 0 1 3
	<b>Assets:</b>	
BG1	Liquid assets	\$ 17,413
BG2	Margin accounts	1
BG3	Investments in securities	205,741
BG4	Receivables under repurchase agreements	-
BG5	Securities lending	-
BG6	Derivatives	614
BG7	Valuation adjustment on hedges of financial assets	85
BG8	Total loan portfolio (net)	117,353
BG9	Earnings receivable on securities trading	-
BG10	Other receivables (net)	2,577
BG11	Assets acquired through judicial proceedings (net)	23
BG12	Property, furniture, and equipment (net)	7
BG13	Permanent investments (a)	14,374
BG14	Available-for-sale long-lived assets	-
BG15	Deferred taxes and Employee Profit Sharing (net)	-
BG16	Other assets	1,101
	Total assets	<u>\$ 359,289</u>
	<b>Liabilities:</b>	
BG17	Traditional deposits	\$ 140,419
BG18	Interbank loans and loans for other agencies	16,882
BG19	Payables under repurchase agreements	176,758
BG20	Securities lending	-
BG21	Collateral sold or pledged	-
BG22	Derivatives	19
BG23	Valuation adjustment on hedges of financial liabilities	50
BG24	debentures in securities trading	-
BG25	Other payables	3,576
BG26	Subordinated debentures outstanding	-
BG27	Deferred taxes and Employee Profit Sharing (net)	-
BG28	Deferred credits and advance payments from customers	50
	Total liabilities	<u>337,754</u>
	<b>Stockholders' equity:</b>	
BG29	Capital contributions	19,677
BG30	Capital gains	1,858
	Total stockholder's equity	<u>21,535</u>
	Total liabilities and stockholders' equity	<u>\$ 359,289</u>
	<b>Memorandum Accounts:</b>	
BG31	Guarantees by endorsement executed	\$ 565
BG32	Contingent assets and liabilities	48,549
BG33	Credit commitments	29,301
BG34	Assets placed in trust or legal custody	936,387
BG35	Financial agent of the federal government.	202,512
BG36	Assets in custody or administration	376,556
BG37	Collateral received by the entity	13,208
BG38	Collateral received and sold or furnished as a guarantee by the entity	13,208
BG39	Investment banking transactions for account of third parties (net)	72,469
BG40	Uncollected interest accrued on nonperforming portfolio	144
BG41	Other memorandum accounts	314,743

(a) Other investments included

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

Identifier	Regulatory Items considered for the calculations of net capital	Reference of the disclosure form of the summary of Capital of the section I of this exhibit	Amount of the combination of the notes to the table. Regulatory items considered for the calculations of the components of Net Capital.
	<b>Assets:</b>		
1	Goodwill	8	\$ -
2	Other intangibles	9	1,003
3	Deferred taxes on earnings (recoverable) from tax losses and liabilities	10	-
4	Earnings on remaining balances of securities trading	13	-
5	Investments of the defined benefits pension plan without unrestricted and unlimited access	15	-
6	Investments in the Institution's treasury stock	16	-
7	Reciprocal investments in common equity	17	-
8	Direct investments in the equity of financial entities where the Institution does not hold more than 10% of the capital stock issued	18	-
9	Indirect investments in the equity of financial entities where the Institution does not hold more than 10% of the capital stock issued	18	-
10	Direct investments in the equity of financial entities where the Institution does not hold more than 10% of the capital stock issued	19	-
11	Indirect investments in the equity of financial entities where the Institution does not hold more than 10% of the capital stock issued	19	-
12	Deferred taxes on earnings (recoverable) from temporary differences	21	-
13	Reserves recognized as supplementary capital	50	12
14	Investments in subordinated debt	26 - B	-
15	Investments in multilateral agencies	26 - D	448
16	Investments in related companies	26 - E	-
17	Investments in risk capital	26 - F	1,357
18	Investments in mutual funds	26 - G	69
	<b>Stockholders' equity:</b>		
34	Paid-in capital that complies with Exhibit 1-Q	1	\$ 19,677
35	Prior year income	2	(1,917)
36	Gain or loss on valuation of cash flow hedge instruments of items recorded at fair value	3	3,558
37	Other capital gains elements other than the above elements	3	-
38	Paid-in capital that complies with Exhibit 1-R	31	-
39	Paid-in capital that complies with Exhibit 1-S	46	-
40	Gain or loss on valuation of cash flow hedge instruments of items not recorded at fair value	3, 11	-
41	Accumulated effect on translation	3 26 - A	-
42	Gain (loss) on holding nonmonetary assets	3 26 - A	-

## 3. Main characteristics of the securities that form part of net capital (Series A)

Ref.	Features	Options
1	Issuer	<b>Nacional Financiera, Sociedad Nacional de Crédito</b>
2	ISIN Identifier CUSIP or Bloomberg	
3	Legal framework	In conformity with Article 30 of the Lending Institutions Act, Nacional Financiera, National Lending company, Development Banking Institution is governed by its Internal Regulations, holders of Series "A" certificates of capital contribution, if applicable, will have the rights set forth in Article 35 of the Lending Institutions Act and Article 12 of the Internal Regulations of Nacional Financiera.
	<b>Regulatory treatment</b>	
4	Transitory equity tier	
5	Non-transitory equity tier	Basic 1
6	Instrument tier	Lending institution without consolidating subsidiaries
7	Type of instrument	<b>Series "A" certificate of capital contribution</b>
8	Amount recognized in regulatory capital	66% in accordance with (3)
9	Face value of the instrument	<b>50.00</b>
9A	Currency of the instrument	<b>Mexican Pesos</b>
10	Accounting classification	<b>Capital</b>
11	Issue date	
12	Term of the instrument	<b>Perpetuity</b>
13	Maturity date	<b>No maturity</b>
14	prepayment clause	<b>No</b>
15	First prepayment date	
15A	Regulatory or tax events	
15B	Liquidation prices of prepayment clause	
16	Subsequent prepayment dates	
	<b>Yields / Dividends</b>	
17	Type of yield / dividend	Variable
18	Interest rate / dividend	Variable
19	Dividend cancellation clause	No
20	Discretionary authority in the payment	Completely discretionary
21	Increase in interest clause	No
22	Yield / Dividend	Non-cumulative
23	Convertibility of the instrument	Non-convertible
24	Convertibility conditions	
25	Degree of convertibility	
26	Conversion table	
27	Type of instrument convertibility	
28	Type of financial instrument convertibility	
29	Issuer of the instrument	
30	Value write-down clause	
31	Conditions for value write-down	
32	Degree of value write-down	
33	Term of value write-down	
34	Temporary value write-down mechanism	
35	Subordinated position in case of liquidation	
36	Characteristics of nonperformance	
37	Description of characteristics of nonperformance	

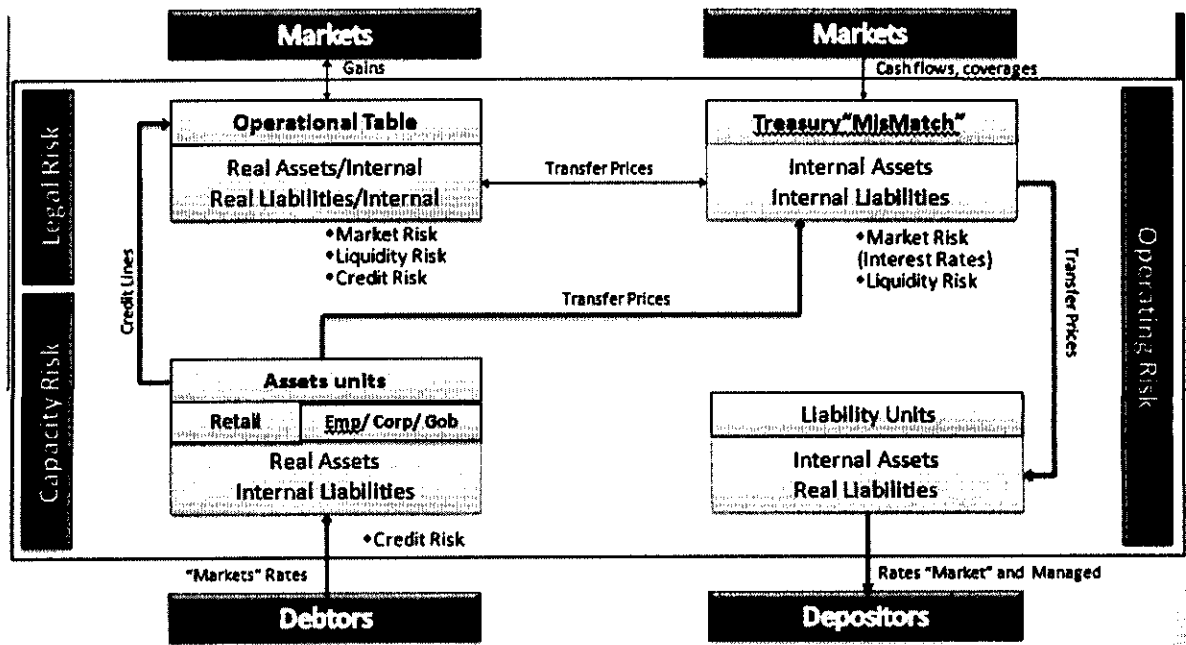
4. Capital management.

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

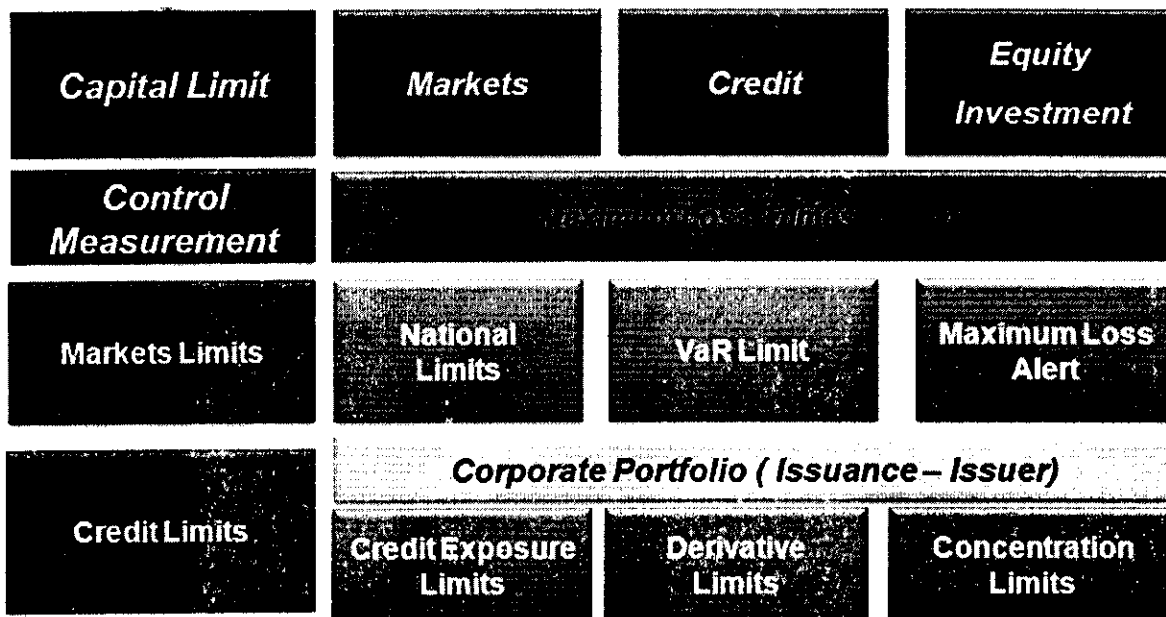
In order to assure that risk management is a supporting tool in decision-making, models and methodologies are established that allow for measuring, monitoring, and controlling the distinct types of risk to which the Institution is exposed. These risk measurements must further contribute to defining business strategies and supporting the decision-making of the operation.

The fundamental point of departure for establishing limits is the definition of a business model that describes exposure to different types of risk generated by the different units that operate in the Institution.

- Treasury: It operates as a central unit that manages the Institution's resources. It is responsible for establishing transfer pricing, controlling liquidity levels, and controlling balance sheet risks. This unit incurs market, credit, and liquidity risks, and with respect to the Institution, it is also in charge of the liability unit.
- Operating tables: Its main role is to generate revenues by operating on different financial markets (money, foreign currencies, capitals, and bonds in foreign currency).
- The asset units: These units encompass the Institution's development activities and they are derived from the lending activity. These activities are the main credit risk generators.



Pursuant to the foregoing, the Institution has a solid structure of global and specific exposure limits to the distinct types of risk considering consolidated risk, itemized by business unit, risk factor and cause as presented in the following diagram:

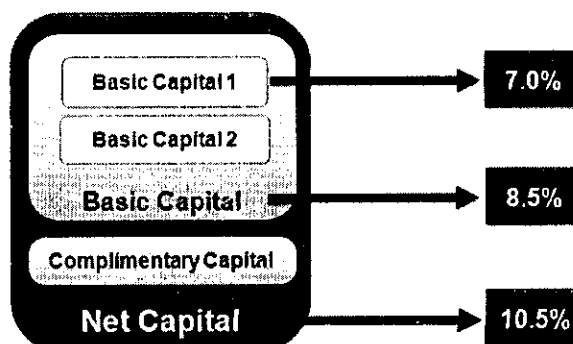


The above diagram shows that capital limits have a strong relevance, toward which the following process is carried out:

- The definition of appetite for risk
- The definition of capital to be distributed
- The appropriation of capital per portfolio
- The distribution to the areas of business risk takers
- The structure of limits for each one of the areas
- Preventive alert mechanisms
- Procedures before breaks
- The redefinition of appetite for risk

The appropriation process of regulatory capital based on what is set forth by the capitalization rules. Starting with these items, distributable is determined, that is, that which the institution has for dealing with the risk that are consumed in its operations.

In accordance with the provisions set forth in Basel III, there are three solvency indicators where the MCI is the most restrictive, since its requirement went from 8.0% up to 10.5%. It is precisely this restriction that establishes the risk appetite through capital limits, that is, it has to assure that it is carrying consumption at 100% of the limits, and in stress situations, under no circumstances may the level of capitalization be lower than 10.5%.

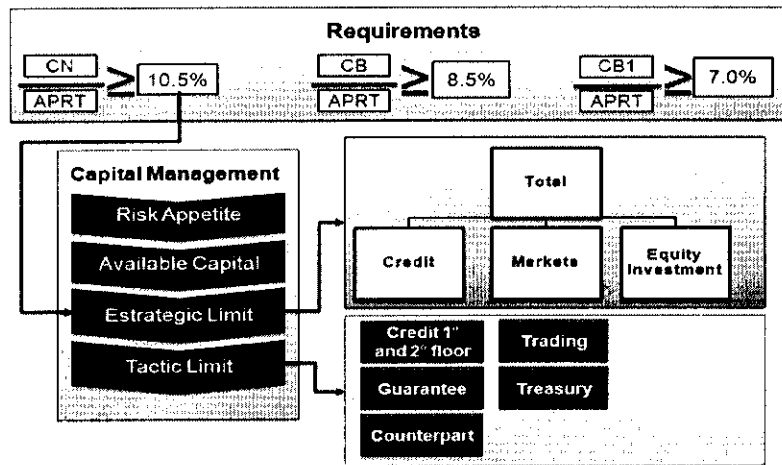


**Capital Limit Structure**

The Institution's capital management considers a limit structure with two tiers of appropriation.

- a) One Strategic Level that authorizes the Board of Directors
- b) A tactical level that is regulated by the CAIR through reappropriations or excesses of limits, as well as management of business areas. Furthermore, the General Associate Directors involved in the business areas can also furnish reassignments of the limits with the approval of the Risk Director, who subsequently reports to the CAIR.

In summary, we have the following:



It is important to note that no operating risk is included in the strategic structure of these limit, since does not originate through discretionary risk-taking, that is, the operation of the Institute itself is implicit. Pursuant to the above, there is an operating risk buffer that is not computed for capital limits, but it is considered in the computation of the level of capitalization. Notwithstanding the foregoing, the risks to which the Institution is exposed are identified, measured, overseen, controlled, and migrated in terms of operating risks.

Considering the foregoing, at December 2013 year end, the level of capitalization was placed at 15.30%, By the same token, the total capital limit recorded a 74.1% overall consumption.

<b>Total</b> 14,050 MDP 74.1% 10,417		
<b>Credit</b> 7,000 MDP 66.3% 4,643	<b>Markets</b> 4,250 MDP 86.1% 3,653	2,800 MDP 80.0% 2,240

Three basic scenarios are presented:

1. If 100% of capital limits are consumed, the level of capitalization would be reduced to 11.29%, that is, 79 pb over the 10.5% demandable.
2. If there should be any adverse event with an application to capital under this current structure, there is capacity to support an impact up to \$6,000 to maintain the ICAP above 10.5%.
3. The combination of the above events, that is, 100% consumption of the capital limits and an adverse event with an impact on capital up to \$1,300 would allow for maintaining the ICAP above the minimum level required.

Finally, in order to have the capacity to obtain resources and continue to operate in a stress scenario in which the sufficiency of the Institution's capital is compromised without need of nonperformance with the minimums established by the authorities, the Treasury Division would obtain the necessary resources on the markets in the best possible terms of cost and term, based on the guidelines established by executive management.

In order to manage liquidity risks, the treasury will control the operative execution in accordance with strategies that would be aligned with executive management's objectives, and it will be responsible for activating the contingent procedures for managing liquidity. In addition, in cases deemed advisable, the procedures will be applied that are established in the "Business Continuity Program".

The Treasury Division will keep Executive Management informed about any liquidity contingency situation.

## **NOTE 31. COMPREHENSIVE RISK MANAGEMENT**

### **Risk management and follow-up**

Domestic and international risk management regulations have undergone an unprecedented evolution in these last years, by incorporating a preventive approach in the financial processes carried out by lending institutions, as well as the obligation to issue internal guidelines that provide for establishing controls to contemplate any economic loss due to the materialization of risks, whether discretionary, nondiscretionary or even those that are unquantifiable.

The Institution has concerned itself with implementing Provisions prudentially and comprehensively, along with implementing the prudential provisions relating to risk management, credit management, and internal control management applicable to lending institutions, as well as the provisions issued by regulatory agencies in Mexico in money laundering prevention matters (unaudited amounts).

## Discretionary quantifiable risks

### 1. Market Risk

The Institution uses the Value at Risk (VaR) methodology to calculate the market risk of its trading and available-for-sale portfolios. The methodology that is being applied generally is historical simulation.

The most significant general principles are presented below:

- The confidence interval being applied in the calculation of VaR is 97.5 % (considering the extreme left of the distribution of losses and gains).
- The temporary base period considered is 1 day.

One year of historical information of risk factors is included to generate scenarios.

The following risk factors are considered: domestic and foreign interest rates, surcharges (spreads), exchange rates, indexes and prices of shares.

In addition to VaR information, sensitivity measures are calculated and stress tests are performed.

Effective July 2005, Back Testing is performed monthly to statistically validate that the market risk measurement model provides reliable results within the parameters selected by the Institution.

The limits on the values followed up on to date on a daily basis are:

- Value at risk: determined based on capital assigned to market risks.
- Nominative capital: based on the rules for capitalization requirements of Full-Service Banking Institutions and Domestic Lending companies, and Development Banking Institutions.
- Notional: these refer to maximum nominal values that can be held in position.
- Measure of maximum loss: this establishes a maximum loss limit against unfavorable trends on markets.

The average VaR of the year amounts to \$33.998, which represents 0.17% of net capital at December 2013 year end.

<b>Markets</b>	
<b>VaR Amount \$33.998</b>	
Trading	Treasury
VaR \$23.909	VaR \$10.089

## 2. Asset and liability management

Asset and liability management refers to managing risks that affect the Institution's balance sheet. This consists of management techniques and tools necessary to identify, measure, monitor, control, and manage financial risks (liquidity and interest rate) that the institution's balance sheet is exposed to. Moreover, it is intended to maximize its yield adjusted by market risks and, therefore, enhance the use of the Institution's capital.

## 3. Liquidity risk

Liquidity risk that affects a banking institution is generally classified in two categories:

- **Market liquidity risk:** It is the possible economic loss due to the difficulty of selling or hedging assets without a significant decrease in its price. This type of risk is incurred as a result of drastic changes in interest rates when large positions are adopted in some instrument(s) or investments are made in markets or instruments for which there is no broad supply and demand on the market.
- **Funding liquidity risk:** This represents the difficulty of an institution in obtaining the necessary funds to pay its obligations, through the income generated by its assets or by acquiring new liabilities (deposits). This type of crisis is generally caused by a drastic, sudden impairment in the quality of assets that result in extreme difficulty to convert them in to liquid assets.

The Institution, in performance of the Provisions of Comprehensive Risk Management, developed a "Liquidity Plan", which establishes various measures to hedge the risks discussed above.

## 4. Local currency maturity profile

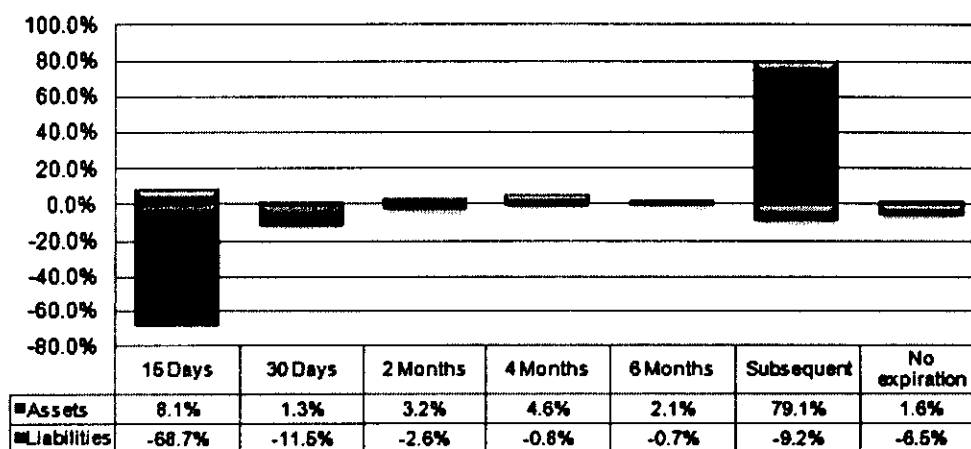
Foreign currency lending and borrowing transactions increased 1.85 in 2013, and amounted to \$345, 721 at December year end, due to the increase in liquid assets, the commercial loan portfolio, as well as traditional deposits and through interbank loans.

<u>Yield ranges</u>	<u>Assets</u>		<u>Liabilities</u>		<u>Gap</u>			
<b>2 0 1 3</b>								
Up to 7 days	\$	25,399	7.30%	\$	216,126	62.50%	\$	(190,727)
Up to 15 days		2,786	0.80%		21,361	6.20%		(18,576)
Up to 22 days		4,037	1.20%		29,960	8.70%		(25,923)
Up to one month		353	0.10%		9,573	2.80%		(9,220)
Up to one month and 15 days		5,044	1.50%		7,807	2.30%		(2,763)
Up to 2 months		5,900	1.70%		988	0.30%		4,912
Up to 3 months		11,593	3.40%		1,512	0.40%		10,081
Up to 4 months		4,221	1.20%		1,519	0.40%		2,702

<u>Maturity ranges</u>	<u>Assets</u>		<u>Liabilities</u>		<u>Gap</u>
Up to 5 months	2,299	0.70%	1,937	0.60%	362
Up to 6 months	4,757	1.40%	307	0.10%	4,450
Thereafter	273,574	79.10%	31,948	9.20%	241,626
With no defined maturity	5,758	1.60%	22,683	6.50%	(16,924)
Total	\$ 345,721	100.00%	\$ 345,721	100.00%	
<b>2012</b>					
Up to 7 days	\$ 18,170	5.30%	\$ 187,036	55.10%	\$ (168,866)
Up to 15 days	3,921	1.20%	34,547	10.20%	(30,626)
Up to 22 days	4,071	1.20%	15,315	4.50%	(11,244)
Up to one month	(749)	(0.20)%	34,946	10.30%	(35,695)
Up to one month and 15 days	5,093	1.50%	7,152	2.10%	(2,059)
Up to 2 months	4,658	1.40%	826	0.20%	3,832
Up to 3 months	9,446	2.80%	11,124	3.30%	(1,678)
Up to 4 months	5,055	1.50%	669	0.20%	4,386
Up to 5 months	5,113	1.50%	3,975	1.20%	1,138
Up to 6 months	3,920	1.20%	298	0.10%	3,622
Thereafter	279,827	82.40%	23,150	6.80%	256,677
With no defined maturity	1,189	0.20%	20,676	6.00%	(19,487)
Total	\$ 339,714	100.00%	\$ 339,714	100.00%	

The negative liquidity gap on the horizon of one month amounts to \$244,446, a lower level in the amount of \$1,985, compared to that recorded in the amount of \$246,431 at 2012 year end. It is important to note that if trading positions are separated, the spread is reduced to \$63,816. This amount is the structural liquidity gap of the balance sheet in local currency, of which half is negotiated with funds deposited that are derived from a stable, diversified base of clients.

**Maturity Profile (Mexican pesos)**



9.4% of the assets and 80.2% of the liabilities matured in January 2014.

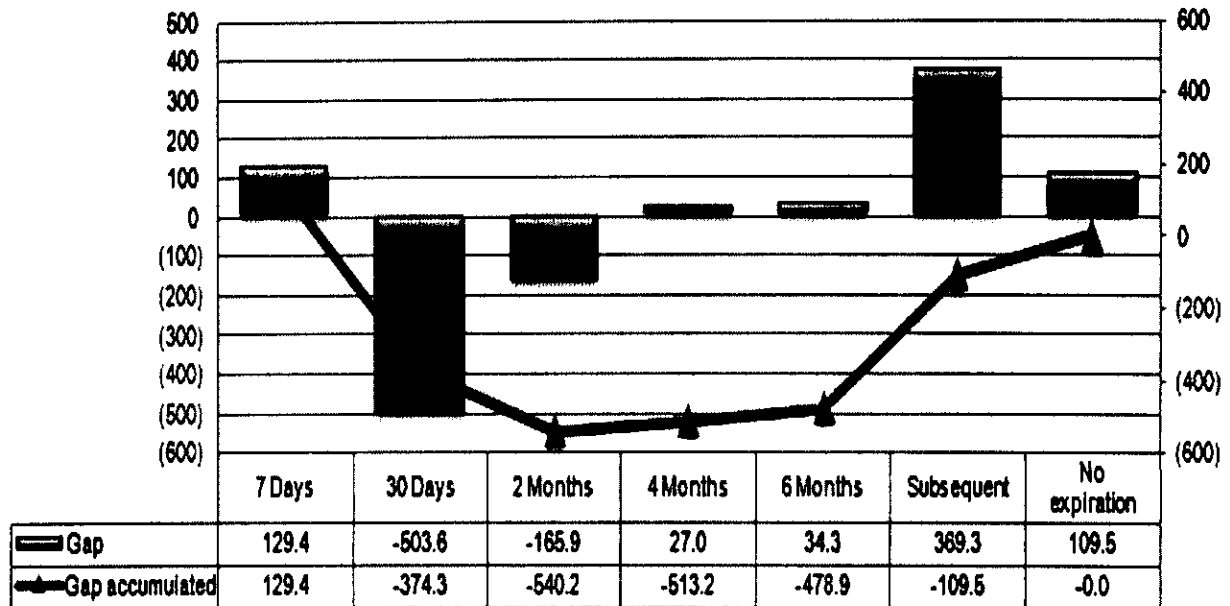
## 5. Foreign currency maturity profile

Foreign currency lending and borrowing transactions at December 31, 2013 remained practically at the same level of 2012 year end, since the increase in the loan portfolio and investments in available-for-sale securities counteracted the decrease in liquid assets, and increased deposits through interbank loans offset the decrease in term deposits.

Maturity ranges	Assets		Liabilities		Gap
<b>2 0 1 3</b>					
Up to 7 days	\$	272.7 15.70%	\$	143.3 8.20%	\$ 129.4
Up to 15 days		213.2 12.30%		327.6 18.80%	(114.4)
Up to 22 days		119.8 6.90%		351.6 20.20%	(231.8)
Up to one month		86.5 5.00%		243.9 14.00%	(157.4)
Up to one month and 15 days		19.3 1.10%		120.0 6.90%	(100.7)
Up to 2 months		11.7 0.70%		76.9 4.40%	(65.2)
Up to 3 months		24.0 1.40%		9.0 0.50%	15.0
Up to 4 months		12.2 0.70%		0.2 0.00%	12.0
Up to 5 months		33.7 1.90%		0.0 0.00%	33.7
Up to 6 months		7.2 0.40%		6.6 0.40%	0.6
Thereafter		817.9 47.10%		448.6 25.80%	369.3
With no defined maturity		120.0 6.80%		10.5 0.80%	109.5
Total	\$	1,738.2 100.00%	\$	1,738.2 100.00%	
<b>2 0 1 2</b>					
Up to 7 days	\$	523.1 30.10%	\$	118.3 6.80%	\$ 404.8
Up to 15 days		160.7 9.20%		492.1 28.30%	(331.4)
Up to 22 days		88.7 5.10%		269.9 15.50%	(181.2)
Up to one month		139.9 8.00%		156.4 9.00%	(16.5)
Up to one month and 15 days		16.8 1.00%		146.3 8.40%	(129.5)
Up to 2 months		107.3 6.20%		21.0 1.20%	86.3
Up to 3 months		18.2 1.00%		16.1 0.90%	2.1
Up to 4 months		13.3 0.80%		4.6 0.30%	8.7
Up to 5 months		18.4 1.10%		6.1 0.40%	12.3
Up to 6 months		6.6 0.40%		3.4 0.20%	3.2
Thereafter		525.4 30.20%		487.8 28.10%	37.6
With no defined maturity		119.9 6.90%		16.3 0.90%	103.6
Total	\$	1,738.3 100.00%	\$	1,738.3 100.00%	

In accordance with the contractual maturity of foreign currency assets and liabilities, and based on the amounts of the balance sheet at December 2013 closing, it is observed that there will be a liquidity in the amount of \$129.4.

### Maturity GAP ME



## 6. Estimate of gain or loss on advance sale

In order to comply with the provisions of Article 81 of Section A of Section Four of Chapter IV "Risk management" of the Provisions, the estimate on the gain or loss on the advance sale of assets in normal conditions and in extreme scenarios is presented below:

In normal conditions, the advance sale of corporate assets in the corporate trading portfolio at December 31, 2013 would result in a loss in the amount of \$319.5, whereas the investment to yield portfolio would present a gain amounting to \$22.8. Upon considering crisis scenarios, a situation similar to September 11, 2001 would result in a loss amounting to \$2.2 equivalent to 0.05% of the value of this position.

Position	Portfolio	Normal conditions	Crisis scenarios					
			12/21/94	8/25/98	9/11/01	9/19/02	4/28/04	10/16/08
3,951.9	Corporate trading	(319.5)	9.9	5.2	3.1	11.5	7.3	3.1
537.9	Investment to maturity	22.8	(2.2)	(3.7)	(5.3)	0.4	0.5	0.8
<u>4,489.8</u>	Total	<u>(296.7)</u>	<u>7.7</u>	<u>1.5</u>	<u>(2.2)</u>	<u>11.9</u>	<u>7.8</u>	<u>3.9</u>

In normal conditions, with respect to the advance sale of assets at December 31, 2013, the available-for-sale portfolio of Grand Cayman would have generated a gain amounting to \$42.3, whereas the sale of bonds held-to-maturity of London and Grand Cayman would have resulted in a gain amounting to \$63.3. Upon considering crisis scenarios, a situation similar to October 16, 2008 would result in a loss amounting to \$31.8 equivalent to 0.91% of the value of this position.

Position	Portfolio	Normal conditions	Crisis scenarios					
			12/21/94	8/25/98	9/11/01	9/19/02	4/28/04	10/16/08
2,647.7	Available-for-sale	42.3	(60.0)	(12.7)	(4.4)	(4.4)	(2.9)	(9.3)
835.5	Held-to-maturity	63.3	(202.3)	(10.7)	(7.8)	(9.2)	(6.0)	(22.5)
<u>3,483.2</u>	Total	<u>105.6</u>	<u>(262.3)</u>	<u>(23.4)</u>	<u>(12.2)</u>	<u>(13.6)</u>	<u>(8.9)</u>	<u>(31.8)</u>

## 7. Credit risk

Credit risk is defined as the likelihood that a counterparty or borrower fails to perform its credit obligations in due time and proper form. It further refers to the loss of value of an investment determined by the change in creditworthiness of any counterparty or borrower, without necessarily resulting in an omitted payment.

## 8. Expected Loss

The expected loss on the loan portfolio is obtained by using the portfolio rating methodology set forth in Chapter V of the Provisions, in connection with the Loan Portfolio.

Pursuant to the reserve obtained under this methodology, the following assumptions are also established:

- The portfolio is not considered to be nonperforming due to nonperformance that had materialized therein.
- The former employee portfolio is excluded to measure the effect of expected losses directly in the exposed portfolio of the private sector.
- The credit to the Trust is not considered as a contingent (nonperforming) portfolio for Risk Equity, since this Trust is responsible for managing its credit risk.
- No additional reserves are included.

Under these assumptions, at December 31, 2013, the total portfolio is placed in the amount of \$118,711, whereas the expected loan portfolio loss amounts to \$1,619, equivalent to 1.39% of the rated portfolio and 1.36% of the total portfolio.

Estimate of expected losses			
Portfolio	Portfolio balance	Expected Loss	% Expected Loss
Unrated	\$ 2,439	\$ -	-
Risk A	102,051	751	0.74%
Risk B	14,221	868	6.10%
Risk C	-	-	-
Risk D	-	-	-
Risk E	-	-	-
Rated	<u>116,272</u>	<u>1,619</u>	1.39%
Total	<u>\$ 118,711</u>	<u>\$ 1,619</u>	1.36%

## 9. Unexpected losses

The unexpected loss represents the impact that could be suffered by the Institution's capital derived from unusual loan portfolio losses, the level of coverage of this loss on capital, and reserves of an Institution is a solvency indicator adjusted by the risk thereof.

Effective December 2005, the estimate of unexpected loan portfolio loss operations is realized at the Institution, by using analytical and Monte Carlo simulation methodologies. As of that date, the stability of these measures and their behavior in the face of various changes in the environment has been observed to determine which of them should be used as the risk measure of Institution's loan portfolio.

In November 2007, the CAIR concluded that of the methodologies proposed for the estimate of the unexpected loan portfolio loss, the methodology with an economic approach is the best methodology that best conforms to the basic internal method of Basel II, based on:

- The similarity of concepts existing between the proposed economic methodology and capital requirement for the loan risk estimated starting with the basic approach of Basel II. This approach permits institutions to estimate the necessary capital to support their risk with internal methods.
- The high levels of correlation and similarity of the average capital requirement observed over the year of internal application of proposed unexpected loan portfolio loss methodologies.

Moreover, the Institution considered that the unexpected loan portfolio loss should continue to be estimated monthly using the valuation and Monte Carlo methodologies, so as to have information in view of future changes of banking regulations in which portfolio market valuation is requested. These methodologies are applied over a one-year time frame with a 95% reliability level.

At December 2013 year-end, the estimate of the unexpected loss under the economic approach amounts to \$9,388. By the same token, the VaR of the credit amounts to \$11,610 and represents 9.83% of the exposed portfolio.

## 10. Counterparty risk and diversification

Comprehensive control of counterparty risk is exercised at the Institution, by applying credit exposure limits established. These limits consider operations throughout all the balance sheet, that is, both on financial markets and in the loan portfolio. The methodology used is consistent with the General Rules for the Diversification of Risks in the Realization of Lending and Borrowing Operations, applicable to Lending Institutions.

At December 31, 2013, no loan risk is concentrated in any economic group above maximum financing limits.

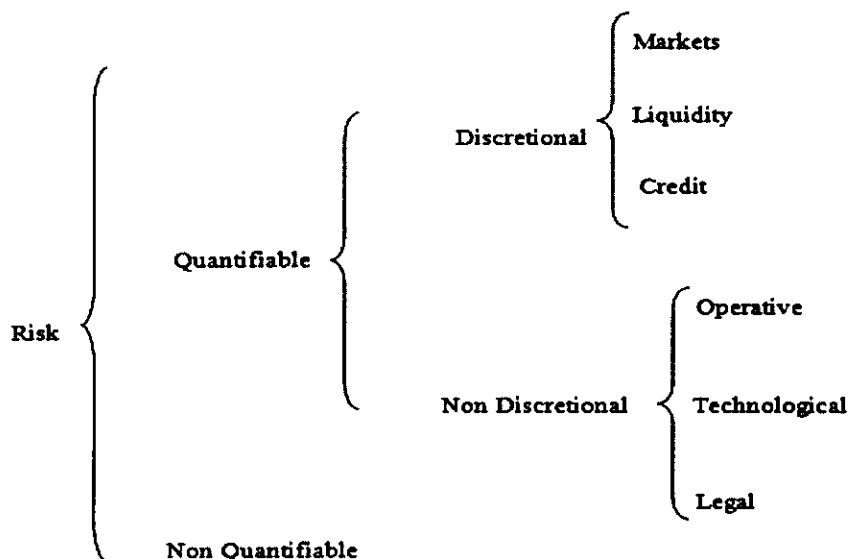
The following number of loans exceeds 10% of the basic capital individually:

<u>Number of loans</u>	<u>Total amount</u>	<u>Percentage of Capital</u>
24	\$96,257	441.50%

Financing with the three highest debtors or, if applicable, groups of persons that represent common risk amounts to \$26,313.

## 11. Operating risk

Based on the Provisions, a basic classification is established for the distinct types of risks to which lending institutions are exposed.



## 12. Nondiscretionary quantifiable risks - Qualitative analysis

The relevant Quality Management System (Q.M.S.) processes are rated by applying Self-Evaluation methodologies (Scorecards), pursuant to two indicators:

- a) **Nature.** It is the degree of importance of the process analyzed in connection with the institution's other processes that require a higher or lower availability of funds and infrastructure to guarantee the business as a going concern, and its levels of tolerance are distributed as follows:

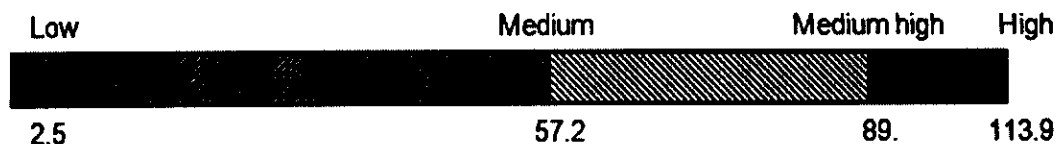


The result obtained from the Institution's most relevant processes in terms of nature at December 2013 month-end is as follows:

<b>HeRO ID process</b>	<b>Name of process</b>	<b>Indicator of nature */</b>	<b>Tolerance level</b>
43	Money market and derivatives	74.58	High Risk
11	Fund flow management and control	73.72	High Risk
9	Custody and management of securities and cash	72.74	High Risk
15	General cashiers office:	69.42	High Risk
26	Exchange market and derivatives	67.40	High Risk
20	Treasury Management	65.43	High Risk
1	Capitals market and derivatives	57.24	Medium High Risk
29	Securities safekeeping and central file	54.87	Medium High Risk
150	Recovery of second tier portfolio	54.67	Medium High Risk
149	Recovery of first tier portfolio, emerging programs, and former employees	54.49	Medium High Risk
3	Expense transaction	51.90	Medium High Risk
17	Credit control table transaction	46.90	Medium High Risk
58	Origination, administration, and recovery of automatic guarantees	45.21	Medium High Risk
151	Financial agent back office	44.32	Medium High Risk
154	Trustee process	43.92	Medium High Risk
141	Financial agent front office	38.50	Medium High Risk
30	Financial, accounting information, and reparation of financial statements	37.95	Medium High Risk
147	Electronic product management	36.40	Medium High Risk

\*/ the higher the score, the higher the criticalness in terms of the nature of the process

- b) **Efficiency.** It is the measure of adequate execution of a process that allows for developing plans to foresee undesired events that permit development of sensitivity toward the perception of operating risk through a measurement and its levels of tolerance are distributed as follows:



The result obtained from the most processes in terms of efficiency at December 2013 month-end is as follows:

<b>HeRO ID process</b>	<b>Name of process</b>	<b>Efficiency indicator */</b>	<b>Tolerance level</b>
11	Fund flow management and control	30.49	Medium Risk
30	Financial, accounting information, and reparation of financial statements	24.39	Medium Risk
147	Electronic product management	24.05	Medium Risk
154	Trustee process	23.65	Medium Risk
29	Securities safekeeping and central file	23.05	Medium Risk
141	Financial agent front office	23.03	Medium Risk
151	Financial agent back office	18.02	Medium Risk
20	Treasury Management	17.22	Medium Risk
3	Expense transaction	17.17	Medium Risk
17	Credit control table transaction	16.76	Medium Risk
15	General cashiers office:	16.67	Medium Risk
9	Custody and management of securities and cash	15.43	Medium Risk
58	Origination, administration, and recovery of automatic guarantees	14.59	Medium Risk
43	Money market and derivatives	13.83	Medium Risk
1	Capitals market and derivatives	12.67	Medium Risk
26	Exchange market and derivatives	12.23	Medium Risk
150	Recovery of second tier portfolio	5.18	Medium Risk
149	Recovery of first tier portfolio, emerging programs, and former employees	4.75	Medium Risk

\*/ the higher the score, the higher the criticalness in terms of the efficiency of the process

### 13. Nondiscretionary quantifiable risks - Qualitative analysis

During 2013, 198 operating risk loss events have been recorded in the accounting, with a likely economic impact amounting to \$22.631, which are summarized as follows:

<b>Quarter</b>	<b>Frequency</b>	<b>Likely economic impact</b>
One	13	13.051
Two	159	0.037
Three	10	9.525
Four	16	0.018
<b>Total</b>	<b>198</b>	<b>22.631</b>

## 14. Technological Risk Management

During 2013, the behavior of the monthly technological risk indicators were as follows:

T.R. Indicator Description	Measure unit	Goal	1st Quarter	2nd quarter	3rd Quarter	4th quarter
Access security level to the NAFINSA network.	With no intrusions into critical mission equipment	100.00%	100.00% Every month	100.00% Every month	100.00% Every month	100.00% Every month
Detection and blocking of viruses to the NAFINSA network.	With no impacts on critical mission equipment	100.00%	100.00% Every month	100.00% Every month	100.00% Every month	100.00% Every month
Availability level of critical services	Percentage of availability	99.00%	Above goal	Above goal	100.00%	Above goal
Recovery of critical services under contingency disaster drills	Percentage	100.00%	N/A	N/A	N/A	Realized October 100%
Availability level of uncritical services	Percentage of availability	97.00%	100.00% Every month	100.00% Every month	100.00% Every month	100.00% Every month

## 15. Legal risk

The issue of unfavorable administrative and judicial resolutions is defined as the potential loss for nonperformance of applicable legal and administrative provisions, as well as the application of sanctions in connection with the operations carried out by the Institution.

Indirect labor lawsuits do not currently contribute to the amount of the contingency and/or provision, since they are not quantified as long as there is no ruling handed down against the Institution.

At December 2013 year end, the status that potential Legal Risk losses may be recorded is as follows:

Book entry of potential legal risk losses						
Item	Contingency	%	Provision	%	Income (loss)	
Total (1+2+3+4)	\$ 403.56	(10.07)%	\$ (40.64)	(34.94)%	\$ (14.20)	
1 Labor nature-	29.70	(76.20)%	(22.63)	(53.07)%	(12.01)	
2 Adversarial portfolio	314.47	(1.13)%	(3.55)	(47.61)%	(1.69)	
3 Trusts	59.39	(24.35)%	(14.46)	(3.46)%	(0.50)	
4 Treasury and securities trading	-	-	-	-	-	

## 16. Relevant aspects

- a) The contingency of the labor portfolio reports an amount of \$29.70 with a variation of \$(18.16) with respect to the prior year, which is equivalent to the amount of \$6.59. The provision reports an amount of \$(22.63) with a variation of (31.30)% with respect to the prior year, which is equivalent to the amount of \$(10.31). The movement in contingency and provision is derived mainly by the termination of various labor proceedings.

- b) The contingency of the contentious portfolio reports an amount of \$314.47 with a variation of 308.88% with respect to the prior year, which was equivalent to the amount of \$237.56. The variation in the contingency is derived from the beginning of a case. The provision of the contentious portfolio reports an amount of \$(3.55) with a variation of 78.39% with respect to the prior year, which is equivalent to the amount of \$1.56. The variation in the provision is derived mainly from the beginning of the proceedings.
- c) The trust contingency reports an amount of \$59.39 with a variation of (84.40)% with respect to the prior year, which is equivalent to the amount of \$(321.37), derived mainly from the termination of a case. The trust provision reports a total amount of \$(14.46) with a variation of 3.58% with respect to the prior year, which is equivalent to the amount of \$0.50. The movement in the provision is derived mainly from the beginning of the proceedings.

The foregoing shows that there is approximately one provision that amounts to \$40.64, and an effect in income amounting to \$14.20 with amounts at December 2013 year end.

## 17. Unquantifiable risks

Unquantifiable risks are derived from losses or unforeseen external events that cannot be associated with a likelihood of occurrence and the economic losses caused can be transferred to external risk taking entities.

<u>Type of risk</u>	<u>Definition</u>	<u>Example</u>
Loss	Risk of loss due to catastrophic events of nature that can interrupt the operation or affect Institutions net worth.	Fire, earthquake, volcanic eruption, hurricane, among other things.
External	Risk of loss caused entities not related to the Institution.	Vandalism, demonstrations, etc.

This type of risks will be followed up on considering the following criteria:

<u>Inventory</u>	<u>Control Measures</u>	<u>Economic impact</u>
Capital Assets	Institutional Capital Asset Insurance Program	Payment of premiums
Assets Acquired Through Judicial Proceedings	Institutional Capital Asset Insurance Program	Deductibles in the event that they should materialize

During 2013, eight losses were reported on the institution's capital assets in the amount of \$0.048.

## 18. General Internal Control standards in the environment of Federal Public Administration

During 2013, on the subject of the ten main strategic risks that might affect reaching the Institution's goals for 2013, a procedure was carried out to determine the ten main institutional strategic risks, as well as the respective follow-up and realization of the Risk Management Work Plan.

### NOTE 32. NEW ACCOUNTING PRONOUNCEMENTS

In December 2012 and 2013, the Mexican Board of Financial Reporting Standards (CINIF) announced the FRS and 2014 improvements to FRS that are discussed below:

**FRS B-12 "Compensation of financial assets and financial liabilities".-** The main characteristics that this FRS has are highlighted below:

- a) Standards are established relative to the offsetting rights that must be considered to present a financial asset and financial liability in their net amount in the statement of financial position.
- b) The characteristics are established that must meet the intent of realizing the offset, based on the principle that a financial asset and a financial liability must be presented in their offset amount, provided that the future cash flow of its collection or liquidation is net.
- c) It establishes other subjects relative to offsetting financial assets and liabilities, such as the intent to collect and simultaneous liquidation of a financial asset and a financial liability in order to be presented net in the statement of financial position, the bilateral and multilateral offsetting agreements and the treatment of collateral.

**FRS C-14 "Transfer and retirement of financial assets".-** The main aspects covered by this FRS are highlighted below:

- a) It is based on the principal of assignment of risks and benefits of the ownership of the financial (trading) asset, as a fundamental condition for retiring it.
- b) For a transfer to mean that the transferor offset can retire it from its statement of financial position, it will be necessary for it to no longer have a benefit or future loss with respect thereto.

**FRS C-11, "Stockholders' equity".-** The main changes generated by this standard are as follows:

- a) Paragraph 25 of Bulletin C-11 set forth that advances for future capital increases to be presented in stockholders' equity, there should be "a resolution adopted at the partners or owners' meeting in which those advances will be applied for future capital stock increases". FRS C-11 further requires that the price per share to be issued be set for those advances and it sets forth that they cannot be reimbursed before being capitalized in order for them to qualify as stockholders' equity.

- b) FRS C-11 generically sets forth when a financial instrument meets the characteristics of capital to be considered as such, since it would otherwise be considered a liability. However, the specific rule for distinguishing a financial instrument as capital and financial instrument as a liability in the same compound financial instrument is addressed in FRS C-12, financial instruments with characteristics of liabilities and capital. FRS C-11 only includes the rule relative to financial instruments which are identified as capital in their initial recognition.

**FRS C-12, Financial instruments with liability and capital characteristics** - The main changes generated by this standard are as follows:

- a) It sets forth that the main characteristic for a financial instrument to qualify as a capital instrument is that the holder thereof be exposed to the risks and benefits of the company, instead of having the right to collect a fixed amount from the company.
- b) The main change in the classification of a redeemable capital instrument, such as a preferred share, consists of establishing, bar none, when the conditions set forth in section 41 of this standard are met, as highlighted by exercising redemption, that it can only be exercised up to the liquidation of the company, provided that there is no other unavoidable payment obligation in favor of the holder, the redeemable instrument is classified as capital.
- c) The concept of subordination is incorporated, a crucial element in this standard. If a financial instrument has a payment priority or reimbursement before other instruments, it would qualify as a liability for the existing obligation of liquidating it.
- d) An instrument with an option to issue a fixed number of shares at a price set in a currency other than the functional currency of the issuer is permitted to be classified as capital, provided that the all the holders of the same class of capital instruments have that option in proportion to their holdings.

### **Improvements to FRS 2014**

In December 2013, the CINIF issued a document named "Improvements to 2014 FRS" (These improvements go into effect for fiscal years beginning January 1, 2014, and the changes in presentation must be recognized retrospectively), which contain specific modifications to some already existing FRS. The improvements that generate accounting changes are as follows:

**FRS C-5 "Prepaid expenses"** - The accounting treatment of prepaid expenses is established for the purchase of items whose payment is denominated in a foreign currency. It further sets forth that the presentation of impairment losses on the value of prepaid expenses should be presented in the item of other revenues and expenses. However, it is considered that it must be the company itself, based on its professional judgment, which decides to use that item, if necessary.

**Bulletin C-15 "Impairment of the value of long-lived assets and their disposition"** - It sets forth that impairment losses of long-lived assets indicate that impairment losses are not permitted to be capitalized in the value of any asset. Moreover, it sets forth that assets related to discontinued operations must not be restructured in prior period financial statements as a result of this transaction.

**FRS B-3 "Statement of comprehensive Income"**. - It sets forth that the company, based on the professional judgment of its administration, must decide to use the items of Other revenues and Other expenses, if applicable.

**FRS C-6 "Property, plant and equipment", FRS C-8, "Intangible assets", FRS C-9, "liabilities, provisions, contingent assets and liabilities and commitments", FRS D-3, "Employee benefits"** - These FRS set forth that the gain or loss of each one of the FRS referred to above are recognized in an item that forms part of net income or loss for the period.

At the issue date of these financial statements, the Institution's management is in the process of determining the effects that the new FRS and improvements to IFRS will have on its financial information.

## **NOTE 33. 2014 FINANCIAL AND FISCAL REFORM**

### ***Financial Reform***

The "Decree whereby Various Financial Provisions are Reformed, Aggregated, and Repealed and the Law to Regulate Financial Groups" was published in the Official Daily Gazette on January 10, 2014. Its main components are as follows:

- Strengthening of the CONDUSEF.
- Establish a new term for development banking.
  - In order to strengthen and expand credit, special emphasis is placed on the areas for national development such as infrastructure, small and medium-sized companies, as well as innovation and creation of patents.
- Develop competition in the banking system to reduce rates and costs.
- Generate additional incentives for banks to grant more financing.
- Strengthen the Mexican financial and banking system.

Moreover, among other things, the following laws are modified:

- a) Lending Institutions Law.
- b) General Law of Negotiable Instruments and Credit Transactions
- c) Commercial Bankruptcy Law
- d) Law of Protection and Defense of the Financial Services User
- e) Internal Regulations of Development Banking Institutions

- f) Commercial Code
- g) Bank Savings Protection Law
- h) National Banking and Securities Commission Law
- i) Securities Market Law
- j) Mutual Funds Law

### ***Fiscal Reform***

This reform implies significant changes in legislation related to:

- a) Elimination of the tax consolidation regime.
- b) New fiscal integration scheme
- c) Income tax on dividends
- d) Elimination of the Simplified Regime.
- e) Changes of the regime applicable to maquiladoras.
- f) Elimination of the tax incentive for investors in Real Property Real Estate Companies.
- g) Changes in the accrual scheme of the Income Tax law for installment sales (sales in partial payments).
- h) Changes in the deduction scheme of employee benefit expenses in the Income Tax Law.
- i) Change in the Income Tax rate:
- j) Repeal of the Corporate Flat Tax Law (IETU). Due to the repeal of this tax, beginning 2014, IETU was assessed on both income and deductions and certain tax credits, based on cash flows of each fiscal year up to December 31, 2013. The rate was 17.5% (the effects of this change are shown in Note 22).
- k) Changes in the determination of Employee Profit Sharing.
- l) Asset tax not yet recovered.
- m) Special mining fees.
- n) Repeal of the Cash Deposit Law (IDE).

The Institution is analyzing the impact of these reforms on its operation.

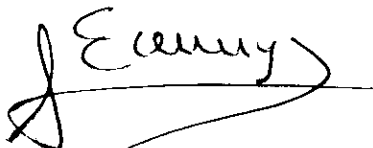
### **NOTE 34. AUTHORIZATION TO ISSUE THE FINANCIAL STATEMENTS**

The officers who subscribe the consolidated financial statements authorized those statements and their corresponding notes to be authorized on February 20, 2014.

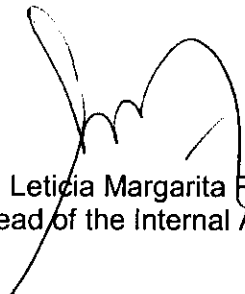
These notes are part of the consolidated financial statements at December 31, 2013 and 2012.



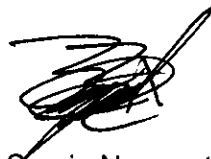
Dr. Jacques Rogozinski Shtulman  
General Director



Lic. Jorge Espinosa de los Reyes Dávila  
Associate General Director of Administration and  
Finance



C. P. Leticia Margarita Pérez Gómez  
Head of the Internal Audit Area

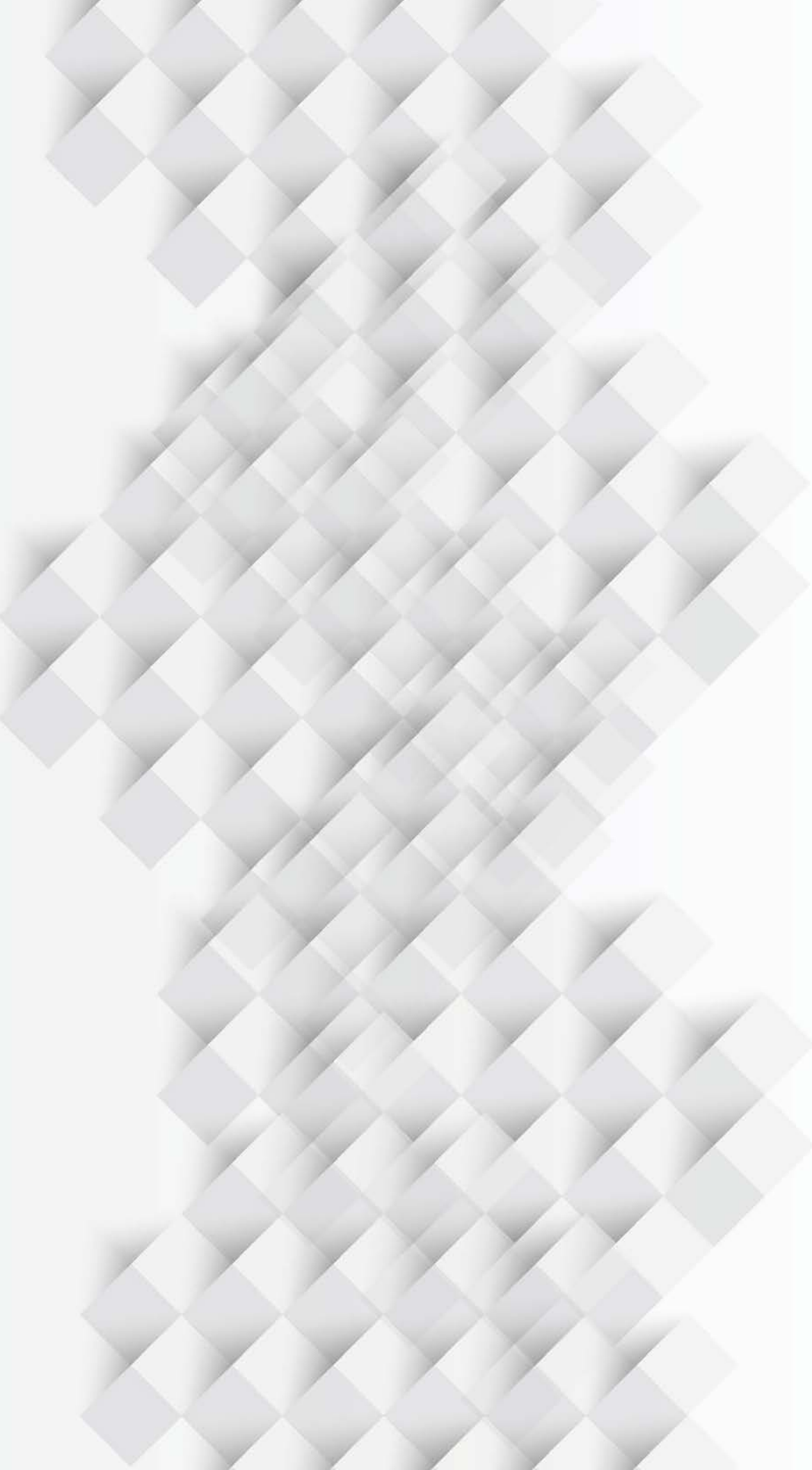


C. P. Sergio Navarrete Reyes  
Director of Accounting and Budget



# **ANNEX C**

## Nafinsa Advisory Council Members



## **NORTHWEST REGION**

### **BAJA CALIFORNIA**

#### **President**

Mario García Franco

### **BAJA CALIFORNIA SUR**

#### **President**

Ricardo Pérez Razura

### **SINALOA**

#### **President**

Rodolfo Gerardo Madero Rodríguez

### **SONORA**

#### **President**

Roberto Gómez del Campo Laborín

## **NORTHEAST REGION**

### **COAHUILA**

#### **President**

Virgilio Verduzco Rosán

### **CHIHUAHUA**

#### **President**

Óscar Eugenio Baeza Fares

### **DURANGO**

#### **President**

José G. Gamboa Silva

### **NUEVO LEON**

#### **President**

Francisco Garza Zambrano

### **TAMAULIPAS**

#### **President**

César Treviño Sáenz

## **WESTERN REGION**

### **AGUASCALIENTES**

#### **President**

José Manuel Gómez Marmolejo

### **COLIMA**

#### **President**

José Manuel Costa Lavín

### **GUANAJUATO**

#### **President**

José Martínez González

## **JALISCO**

#### **President**

Ernesto Gómez Ibarra de la Mora

## **MICHOACAN**

#### **President**

Germán Oteiza Figaredo

## **NAYARIT**

#### **President**

Manuel Menchaca Díaz del Guante

## **SAN LUIS POTOSI**

#### **President**

Alejandro Hernández de la Rosa

## **ZACATECAS**

#### **President**

Pablo Reimers Morales

## **CENTRAL REGION**

### **MEXICO CITY**

#### **President**

Luis Alfonso Villaseñor Zepeda

### **STATE OF MEXICO**

#### **President**

Rubén Gonzalo Martínez Cárdenas

### **GUERRERO**

#### **President**

Miguel Ángel Cabello González

### **HIDALGO**

#### **President**

José David Maaud Abud

### **MORELOS**

#### **President**

Guillermo León Flores

### **PUEBLA**

#### **President**

Ángel Fernández Carbajal

### **QUERETARO**

#### **President**

Francisco Núñez Elías

### **TLAXCALA**

#### **President**

Enrique Morodo Santisteban

## **SOUTHEAST REGION**

### **CAMPECHE**

#### **President**

Position not filled

#### **Vice-President**

Victor Manuel Abraham Elías

### **CHIAPAS**

#### **President**

Adrián Marengo Olavarrieta

### **OAXACA**

#### **President**

Felipe Martínez Vasconcelos

### **QUINTANA ROO**

#### **President**

Mario Rendón Monforte

### **TABASCO**

#### **President**

Cristóbal Broca Hernández

### **VERACRUZ**

#### **President**

Ramón Gómez Sañudo

### **YUCATAN**

#### **President**

Carlos Gomory Rivas



## **ANNEX D**

### Directory of Regional and Overseas Offices



#### **NORTHWEST REGIONAL OFFICE**

**Giancarlo Ciscomani Freaner**  
Director

Blvd. Eusebio Kino No. 309  
Torre Hermosillo 5° piso  
Col. Country Club  
Hermosillo, Son.  
C.P. 83010  
Tel: 01-662-289-2301 a la 2303  
Email: gciscomani@nafin.gob.mx

#### **NORTHEAST REGIONAL OFFICE**

**Alfonso Héctor Ramos Gámez**  
Director

Av. El Roble No. 300, Edificio Torre  
Alta, P.B. Esq. Gómez Morín  
Col. Valle del Campestre  
San Pedro Garza García, N.L.  
C.P. 66265  
Tel: 01-81-8173-1201 y 1211  
Email: ahramos@nafin.gob.mx

#### **WESTERN REGIONAL OFFICE**

**Jorge Alberto Guerra Márquez**  
Director

Rubén Darío No. 1109-5A,  
Col. Providencia  
Guadalajara, Jal.  
C.P. 44620  
Tel: 01-33-3648-5501 y 5502  
Email: jaguerra@nafin.gob.mx

#### **SOUTHERN REGIONAL OFFICE**

**Antonio Morayta Llano**  
Director

Calle 17 No. 135 Esq. Calle 28  
Col. México  
Mérida, Yuc.  
C.P. 97125  
Tel: 01 999 948-4883 / 01 999 948-  
4884  
Email: amorayta@nafin.gob.mx

#### **LONDON BRANCH**

**Adriana Elías Calles**

28 th, Floor, 30 St. Mary Axe  
London EC3A 8BF  
Tel: 00 (44) 020-7469-4123  
Fax: 00 (44) 020-7469-4122

#### **CENTRAL REGIONAL OFFICE**

**David Garibay Mendoza**  
Director

Insurgentes Sur 1971, torre 4, piso  
11, Plaza Inn  
Col. Guadalupe. Inn, Delegación  
Álvaro Obregón  
México D. F.  
C.P. 01020  
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**nacional financiera**  
Banca de Desarrollo

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