

Aniversario

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nacional financiera

ANNUAL
REPORT

2019



BOARD OF DIRECTORS AND COMMISSIONERS ON DECEMBER 31, 2019

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Chairman of the Directive Board

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Deputy Secretary of Finance and Public Credit

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Secretary of Economy

NORMA ROCÍO NAHLE GARCÍA

Secretary of Energy

TO BE APPOINTED

Bank of Mexico's Representative

TO BE APPOINTED

Head of a Federal Public Office

DEPUTIES

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Secretariat of Finance and Public Credit

JOSÉ DE LUNA MARTÍNEZ

Head of the Public Credit Unit
Secretary of Finance and Public Credit

MARCOS SANTIAGO ÁVALOS BRACHO

Head of the National Content and Productive
Chains and Investment Promotion Unit in the
Energy Sector
Secretariat of Economy

ALBERTO MONTOYA MARTÍN DEL CAMPO

Deputy Secretary of Energy
Secretariat of Energy

HÉCTOR DESENTIS MONTALBÁN

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Bank of Mexico

TO BE APPOINTED

Deputy Head of a Federal Public Office

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Chairman of the Confederation of National Chambers of Commerce, Service and Tourism (CONCANACO-SERVYTUR)

DEPUTIES

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Chairman of the Mexican Chamber of Construction (CMIC)

TO BE APPOINTED

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Independent Professional

JOSÉ SALVADOR MARTÍNEZ CERVANTES

Independent Professional

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Delegate and Principal Public Commissioner of Finance
Secretariat of Public Service

HOLDERS SERIES "B"

ARACELI ESPINOSA ELGUERA

Professor and Researcher of the Management and Business Academic Department of the Instituto Tecnológico Autónomo de México (ITAM)

DEPUTY SERIES "A"

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Deputy Delegate and Deputy Public Commissioner of Finance
Secretariat of Public Service

DEPUTY SERIES "A"

IGNACIO NÚÑEZ ANTA

Comptroller and Manager of Grupo Financiero Anáhuac

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PERLA LILIANA DE LA PEÑA AMANTE

Secretary of the Board of Directors

ABRAHAM OCTAVIO GARCÍA MONTAÑO

Deputy Secretary of the Board of Directors

**OFFICER
ATTENDING
SESSIONS OF
THE BOARD OF
DIRECTORS ON
DECEMBER 31, 2019**

**EUGENIO FRANCISCO DOMINGO NÁJERA
SOLÓRZANO**

General Director (CEO)

JAVIER VÁZQUEZ DURÁN

Head of the Deputy General Directorate of
Financial Institutions

**MARIO DIEGO ALBERTO ORDÓÑEZ
ZARAGOZA**

Head of the Deputy General Directorate of
Corporate Banking

STINE MØLLER-HANSEN SECHER

Deputy General Financial Director

CÉSAR CARRANZA NAVA

Head of the Deputy General Directorate of
Credit

SAID SAAVEDRA BRACAMONTE

Deputy General Director of Institutional
Promotion

MARÍA GUADALUPE MUÑOZ RESÉNDEZ

Deputy General Director of Legal and Fiduciary
Affairs

JOSÉ ALBERTO GÓMEZ SANDOVAL

Deputy General Director of Administration and
Finance

EMETERIO BARRIENTOS ROMERO

Deputy General Director of Strategy Planning

MIGUEL SERGIO SILICEO VALDESPINO

Deputy General Director of Bonds and
International Relations

JOSÉ IGNACIO LASA ARANA

Deputy General Director of Technology and
Processes

PERLA LILIANA DE LA PEÑA AMANTE

Secretary of the Board of Directors

ABRAHAM OCTAVIO GARCÍA MONTAÑO

Deputy Secretary of the Board of Directors

CONTENTS

INSTITUTIONAL MESSAGE	8
ECONOMIC ENVIRONMENT	11
World's Economy	12
Mexican Economy	14
PROMOTION	17
Promotion Program	18
Credit and Guarantees to Private Sector Program	18
Productive Chains Program	18
Sector-based Program	19
Alternative Channels	22
Entrepreneur Capital	23
Portfolio Balances of Private Sector Credits	24
Business Training and Technical Assistance Program	24
Institutional Promotion Network	26
CORPORATE BANKING	33
Structured and Corporate Credits	34
Government Banking	34
Investment Programs	34
Sustainable Projects	35

INTERNATIONAL	37
Project Management	38
International Cooperation	43
Financial Agent	44
TREASURY AND MARKETS	47
Treasury	48
Markets	49
Money Market and Bonds	51
Investment Funds	52
Cetesdirecto	53
LEGAL AND FIDUCIARY OPERATIONS	55
Corporate and Business	56
Governmental Regulations	58
Legal and Collecting Disputes and Credit Department	60
Fiduciary Operations	61
OPERATIONS SUPPORT	63
Quality Management and Organizational Culture	64
Human Capital Development	65
Internal Comptroller	66
Internal Auditing	72
Computing	73
FINANCIAL RESULTS	77
Evolution Risk Overdue Portfolio	78
Comparison to Other Banks	78
Overall Balance	79
INTERNAL CONTROL BODY	81
ANNEX A	85
Nacional Financiera important figures	
ANNEX B	89
Report on Consolidated Financial Statements with Subsidiaries, as of December 31, 2019.	
ANNEX C	91
Directory of Regional and Overseas Offices	



INSTITUTIONAL MESSAGE

2019 was a year of transcendent changes in the operation of the Federal Public Administration. These changes as a whole represent a new way of conceiving the relationship between citizens and their elected officials, with a particular emphasis in the optimization of public resources and austerity in government management, fighting against corruption and, above all, enhanced servicing of the basic needs of vulnerable citizens.

In line with these major objectives of the Federal Government, during 2019 Nacional Financiera implemented a comprehensive and coordinated transformation process in order to comply with such guidelines, by focusing its efforts on the mandate given, business and management processes, and expected and obtained results, all within the framework of adequate planning and strategy.

In 2019 Nafin obtained important results and achievements in their business lines and management, mainly a product of the commitment of its personnel with the attainment of its goals, a clear strategic direction, a solid institutional quality management system, a reliable accountability system, and suitable computing systems and procedures that guarantee the continuity of operations.

In this context, equity capital balance at year's close reached 37,926 million pesos, a nominal growth of 6.7% compared with 2018.

Resources in the amount of 485,973 million pesos were channeled to the private sector through the Productive Chains, Traditional Discount, Micro-Business and Equipment, Securities Scheme and Guaranteed Credit programs. Likewise, 203,432 million pesos were distributed through the Productive Chains program, producing a balance of 40,831 million pesos. Sector-based programs had a balance of 22,915 million pesos, a growth of 21.8% vs last year's same period.

During 2019, 78,000 entrepreneurs and business owners benefited from the Business Training and Technical Assistance Program [Capacitación Empresarial y Asistencia Técnica] with courses, workshops, conferences, internships, work meetings and technical assistance.

1,430 credits were issued in the Stimulus and Emerging programs for an amount of 2,509.5 million pesos, and 2,113 million pesos were loaned through First-tier financing.

Moreover, in 2019 all the advisory boards (1 for each state) were restructured to renew their vocation as promoters of the industrial sector. The advisory boards form an important network to dialog with the main players of the Mexican business community.

Nafin boosted the stock exchange through financing for the development of the Mexican real state sector in the amount of 300 million pesos, with an additional 100 million US dollars for the maturity of underlying assets and boosting of the development of industrial infrastructure. Other operation of note was the issuance of a private long-term bond to complement the financing package and use these new resources to build new energy projects in Mexico.

Regarding international financing, Nafin has a portfolio of 18 contracted lines of credit for the amount of 1,334.33 million US dollars with assorted International Financing Institutions. During 2019, Nafin was a player in the development and negotiation of projects with this type of financing, such as the SARAS financial cooperation scheme, which will strengthen the assessment, mitigation, management, documentation and monitoring of impacts and risks associated with Nafin's financing and investment and position the bank as a leading institution in green financing.

Nafin's Treasury, in support of the institutional goals regarding the expansion of access to financing, the development of financial markets and projects in high-impact sectors, continued with its priority activities on the subject of the efficiency of raising strategies, determination of transfer prices, management of portfolios and of the risk of interest rates and liquidity for the coverage of the institution's balance.

Nafin became the largest trustee in the country, managing assets valued over 1.7 trillion pesos corresponding to 411 fiduciary businesses. This amount represents over 18% of the country's total assets in trust, and about 72% of the total managed by development banking.

Regarding its management, Nafin has strengthened its processes and human resources, purchases and computing processes and systems, by balancing the specific needs of the institution with the operational provisions issued by the authorities regarding management, austerity and combating corruption. Likewise, all Internal Comptroller, Internal Audit and OIC processes are managed in accordance with the efficient allocations applicable thereto.

Therefore, Nacional Financiera is ready to face in timely fashion the present and future challenges inherent to its activities, by supporting Mexican businesses in harmony with the direction defined by the Mexican government.



01

ECONOMIC ENVIRONMENT

WORLD'S ECONOMY

By the end of 2019 the world's economy grew 2.9%, the lowest rate during a 10-year continuous growth period after the 2009 contraction, with an average gains rate of 3.7%. It is worth mentioning that the world's Gross Domestic Product (GDP) grew 3.6%, while the expectation for 2019 was adjusted downward by a percentage point since the forecast of April 2018.

In 2019, advanced countries grew 1.7% and emerging countries 3.7%, a drop of 2.2% and 4.5% from 2018, respectively. The United States of America continued leading growth in the G-7 group, with a 2.3% growth rate (down from 2.9%) while Germany's growth rate went from 1.5% to 0.5%. Among developing economies, China retook the lead with a 6.1% growth rate, down from 6.6% in 2018. India, on the other hand, which grew by 6.8% the year before, dropped noticeably to an expected growth rate of 4.8%.

Although the world's economy is moving to the downward phase of economic cycle, after a prolonged growth period, the downturn observed during 2019 was determined by situational events that mainly affected the performance of the world's trade, manufacturing activities and fixed investments: Commercial strife between the United States, China and other countries, Brexit uncertainty, social unrest in many countries, especially in Latin America, and other geopolitical order events. It is worth mentioning that during the last quarter some of these factors had started to lessen and produce favorable signs for the performance of the economy during 2020. Nonetheless, the emergence of a new flu virus variety in China which could be highly contagious and have deadly and uncertain consequences has begun to have negative effects overgrowth expectations, especially for the first quarter of the year in progress.

In 2019, labor markets, with few exceptions, continued having important gains. Unemployment rates in many countries kept dropping to levels not seen



in many years, even decades. In the USA, 1.98 million jobs were created by year's end, which was reflected on an unemployment rate of 3.5%, the lowest for a year period since 1968. Likewise, the unemployment rate dropped to 7.6% in the Eurozone, 2.3% in Japan, and 3.8% in the United Kingdom, their lowest rates since 2007, 1990 and 1974, respectively.

At year's end annual inflation slightly rose in some regions and countries in comparison with the first quarter performance; generally, inflation was lower than in that of 2018. Economic downturn and the accelerated drop in fuel prices contributed to moderate the variations of consumer price indexes.

The annual inflation in the USA, as measured by the Consumer Price Index (CPI) published by the Bureau of Labor Statistics (BLS), finished the year at 2.3%, down from 1.9% in 2018, while the core inflation, that is, discounting energy and food prices, rose from 2.2% to 2.3%. On the other hand, inflation, as measured by the prices index implicit in the Personal Consumption Expenditures (PCE), ended in 1.6%, down

from 1.8% in 2018. Note that the target of the Federal Reserve System (FED) for the PCE is 2.0%.

In other latitudes, inflation in Japan went from 0.3% to 0.8%; 1.5% to 1.3% in the Eurozone; 2.1% to 1.3% in the United Kingdom, and 2.0% to 2.2% in Canada. In emerging economies, behavior was more uneven, as inflation in these countries went as follows: Brazil from 3.75% to 4.31%; Chile, from 2.60% to 3.0%; Peru, from 2.19% to 1.90%; China, from 1.9% to 4.5% (strong hikes in pork meat prices); Russia, from 4.3% to 3.0%; India, from 2.11% to 7.35% (due to food prices); Colombia, from 3.18% to 3.80%; South Africa, from 4.4% to 4.0%; Poland, from 1.1% to 3.4% (also due to food prices), and South Korea, from 1.3% to 0.7%.

Economic downturn and the absence of inflationary pressures, despite the narrowness of the labor market, enabled most central banks to adopt monetary ease measures. This included the FED who adjusted its normalization strategy and reduced the range for its reference rate by 75 base points (bp) throughout the second quarter, which now stands between 1.50% and 1.75%. The central banks of other G-7 countries did not modify their rates but maintained an accommodative policy. Other central banks relaxed their policies or gradually lifted restrictions, as shown in the following table:

Country/Region	Level at the end of 2019	Variation on 2019 (bp)
United States	1.75%	-75
Australia	0.75%	-75
New Zealand	1.00%	-75
Brazil	4.50%	-200
Russia	6.25%	-150
India	5.15%	-135
Mexico	7.25%	-100
Chile	1.75%	-100
Indonesia	5.00%	-100
Nigeria	13.50%	-50
South Korea	1.25%	-50
Peru	2.25%	-50
South Africa	6.50%	-25



MEXICAN ECONOMY

Preliminary GDP numbers indicate that there was a -0.1% contraction by the end of 2019. This is the first contraction in 10 years, after the Mexican economy dropped -4.7% in 2009 as a result of the global crisis. Primary sector production increased 1.9%, the secondary sector dropped by -1.7% and the tertiary sector increased by 0.5%.

Moreover, during 2019, the industrial activity dropped at an annual average of -1.8%; mining dropped -5.1%, construction dropped -5.0% and manufacturing activities increased 0.2%.

Demand also experienced an important downturn. As of November, data indicated an average annual drop of -5.1% during the first 11 months of the year, with a -7.0% contraction in machinery and equipment investment. Consumption's annual growth rate went from averaging 2.3% in 2018 to 0.9% during the period January-November 2019.

Exports also reduced their annual growth rate, from 10.3% in 2018 to average annual gains of 5.8% in 2019, while imports had average annual gains of 4.1% (10.5% in 2018). In this case, the unfavorable international context caused a lower dynamism of Mexican foreign trade.

Unemployment rate averaged 3.5% in 2019, slightly above the 3.3% rate of 2018. On the other hand, the number of workers insured by the Mexican Social Security Institute (IMSS, in Spanish), taking into account both permanent and urban eventual workers, totaled 20,168,881 at the end of December, that is, 341,462 jobs were created during the year with a percentage gain of 1.72%. Remunerations as measured by the Daily Wages Associated with Insured Workers by the IMSS grew 6.71% annually in nominal terms by yearend closing, while its real ex-ante variation (that is, compared to the inflation expectation for 12 months) grew 3.11%.

Family remittances from abroad continued to be an important factor for the Mexican economy as they reached a new historical maximum of 36,048 million US dollars in 2019, an increase of 7.04% compared to the levels observed in 2018. The value in pesos of the remittances reached 694,562 million, which represents a rise in comparison to the value accrued in



2018, of 6.95% in nominal terms and 3.25% in real terms. Furthermore, the annual general inflation kept a downward trend and reached 2.83%, a reduction of 2 percentage points vs inflation at 2018 year's end. Stability in gasoline prices, appreciation of the peso against the US dollar, the slowing down of economic activity and the absence of outer inflationary pressures were some of the factors that contributed to the inflation results.

On the other hand, underlying inflation went from an annual 3.68% at the end of 2018 to an annual 3.73% in December 2019; the behavior of the price of services, which in turn were influenced by wage raises, account for inflation not meeting the target of 3%.

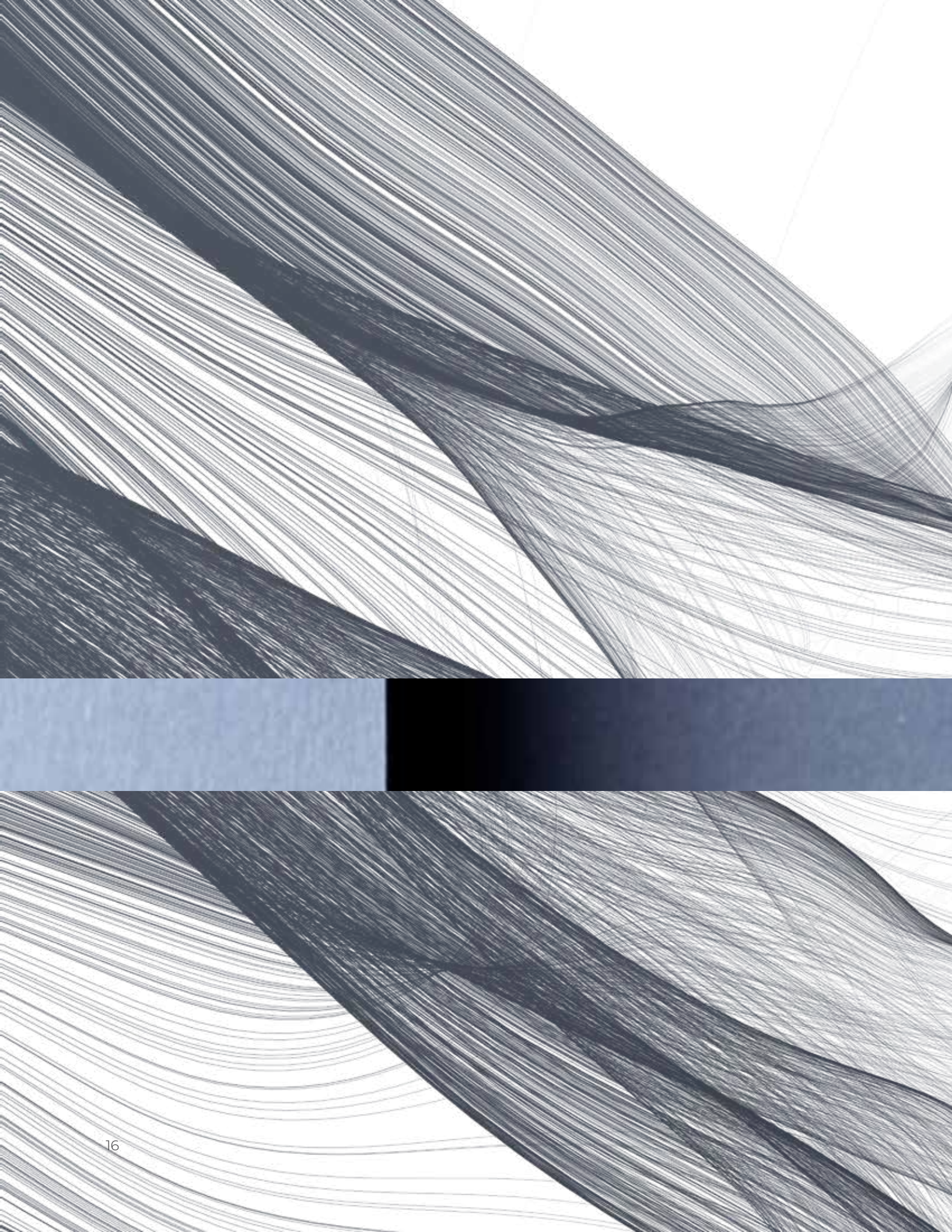
After keeping the reference rate at 8.25% during the first quarter, the Bank of Mexico (Banxico, in Spanish) reduced the target for funding rate in four occasions, by 25 bp each. Thus, by year's end the monetary policy rate was set at 7.25%. It is worth mentioning that during the September and November meetings, two members of the Board of



Governors voted for 50 bp reductions, whereas a single board member voted for that measure at the December meeting. The statement released from that same meeting pointed out that the decision was motivated by the continuous downturn of the world's economy, the review of economic prospects downwards in a framework of low inflation levels and the persistent weakness of economic activities in Mexico. Likewise, it was underlined that all risk factors and uncertainty elements that influence the behavior of inflation and the perspectives thereof will be given due follow-up, and the necessary measures will be adopted based on the available information, when appropriate. To close the matter, it was pointed out that a prudent posture will be maintained, with specific follow-up to: the transfer of the exchange rate to inflation, the monetary position within a context of external risks, the evolution of leeway conditions and the pressure of costs in the economy (wages).

Although the United States-Mexico-Canada Agreement (USMCA) was signed by the incumbents of the Executive branch of each country on November

2018, amendments thereto were introduced in labor, health and environment subjects at the request of the Democrat legislators in the US Congress. The resulting amendment agreement was signed by representatives of Mexico, the United States and Canada on December 10. The Mexican Senate ratified the amendment agreement some days later. The House of Representatives and the Full Senate of the United States ratified the agreement on December 19, 2019, and January 16, 2020, respectively, and the US President executed the treaty on January 29, 2020. On the other hand, it can be expected that the Canadian Parliament will approve the agreement in the first quarter of the year, which means that the Treaty would come into force in June, or three months after the last commercial partner finishes its internal approval or ratification processes.





2022



PROMOTION

PROMOTION PROGRAM

Nacional Financiera (Nafin), through its different credit and securities programs, as of December 2019, has extended a total of 485,973 million pesos in credits, a decrease of 12.9% vs last year's same period, mainly caused by the decline in financing demand of the Guarantees program.

CREDIT AND GUARANTEES TO PRIVATE SECTOR PROGRAM

The variety of products offered by the institution through its Productive Chains, Traditional Discount, Micro-Business Financing and Equipment programs, as well as its Guarantees Scheme and the credit guaranteed by the latter, allowed to funnel resources to the private sector for the amount of 485,973 million pesos.

Through the second tier, Productive Chains participated by issuing credit for 203,432 million pesos, Micro-business and Equipment contributed with 14,410 million pesos and Traditional Discount contributed with 82,426 million pesos.

PRODUCTIVE CHAINS PROGRAM

From January to December 2019, 203,432 million pesos have been distributed through the Productive Chains program, producing a balance of 40,831 million pesos.

Within this program, the Federal Government agencies and entities registered accounts payable for 273,118 million pesos, 35% of which were paid early. This allowed to support 4,014 suppliers that exercised the benefit of early payment through financial factoring.

From January to December 2019, the main indicators of the program were as follows:



- 424 chains with operations, in benefit of 19,815 businesses.
- More than 2.2 million papers were operated.

As of December 2019, 31 new chains were registered, and 111 chains are at the promotion and implementation stages.

- Out of the total portfolio of the Productive Chains program there is a recorded decrease of **0.5314%** of the balance and a **4.705%** increase in operations vs last year's same period.



SECTOR - BASED PROGRAMS

Nacional Financiera offers programs to service micro, small and medium-sized establishments (MSMEs) of sectors or economic activities with a history of limited access to financing, and programs to promote job creation and contribute to the servicing of strategic or priority sectors. During 2019, these programs had a balance of 22,915 million pesos, a growth of 21.8% vs last year's same period. During 2019, 19,893 credits for 10,226 million pesos were issued (authorized amount). Per line of action, the main results were as follows:

I. Regional Development

II. 1,401 credits for 2,485 million pesos were issued, which mainly includes:

- **The Economic Stimulus and Promotion of Employment program** operated in coordination with the governments of the participating states to support their priority economic activities and contribute to regional development and job creation. The breakdown per state and amount allocated appears in the next page:

State	Total Number of Credits	Total Amount (Million pesos)
Queretaro	169	275.21
Aguascalientes	139	250.95
Tamaulipas	129	244.75
Quintana Roo	119	214.46
Zacatecas	80	190.17
San Luis Potosí	73	167.15
Baja California	60	117.35
Tlaxcala	84	107.58
Michoacán*	54	104.23
Durango	40	91.09
Sinaloa	23	47.72
Nuevo León	14	18.49
Tabasco*	9	16.16
Chihuahua	4	13.08
Campeche*	4	6.37
Hidalgo	2	5.70
Chiapas*	3	4.98
Guerrero*	4	3.99
Estado de México	1	2.90
Guanajuato	1	1.25
Jalisco	1	0.62
Total	1,264	2,249.73

*It operates under the Southwest Boost Program, aligned with the Special Economic Zones strategy.

- Industrial and regional development stimulus aiming to direct financing towards manufacturing industry and strategic sectors of each state, based in their productive disposition and capacities. 137 credits were issued for 236 million pesos.

II.Strategic sectors and others

796 credits for 1,230 million pesos were issued among the following standout programs:

- **Textiles, clothing and fashion:** This program issues competitive financing to promote the modernization, innovation and development of new products in the MSMEs of the textiles-clothing-fashion productive chain. 33 credits were issued for 50 million pesos.
- **Assistance Program for the Leather and Footwear Sector and its Supply Chain:** This program supports the productive chain of the leather and footwear sector with financing to drive technological development and operational and administrative modernization. 184 cre-

redits were issued in the amount of 253 million pesos.

- **Building Sector Support Program:** This program supports the sector's businesses dedicated to the development of productive, commercial and infrastructure works. 153 credits were issued in the amount of 342 million pesos.
- **RIF [Fiscal Incorporation Regime] Program,** that promotes the formalization and financial inclusion of the country's micro-businesses, by facilitating access to commercial banking credit. 85 credits were issued for 19 million pesos.
- **Ven a Comer [Come and Eat] Program:** A financing program aimed at restaurant businesses for working capital, equipment and modernization of facilities. 226 credits were issued for 264 million pesos.
- **Gasoline Station Companies Program:** A program that supports gasoline station establishments with financing intended for the necessary investments for their modernization, in the face of new competition conditions in the energy industry. 96 credits were issued in the amount of 280 million pesos.

III. Financial Inclusion

866 credits for 815 million pesos were issued among the following standout programs:

- **Support Program for Women Entrepreneurs:** A program that includes gender perspective in the credit offer to MSMEs, to promote competitiveness and growth of businesses run by women of the country. 478 credits were issued for 653 million pesos.
- **Young Business Owners Program:** A program that promotes the entrepreneurship culture among individuals between the ages of 18 and 35, to start new businesses or to expand operating businesses. 388 credits were issued for 162 million pesos.

IV. Transportation

13,506 credits were issued for 4,675 million pesos.

- **First Losses Auction for Light Vehicles:** A program that supports the country's business owners for the purchase of new vehicles to perform their productive activities. 13,133 credits were issued for 3,731 million pesos.
- **First Losses Auction for Freight, Passenger Service and Tourism:** A program aimed at the modernization of the vehicle fleet of cargo, passenger transportation and tourism federal public services, to contribute to preserve the environment and road safety by promoting the purchase of newer, more efficient and less polluting vehicles. 346 credits were issued for 909 million pesos.
- **Micro and small carrier businesses:** It promotes the gradual renovation of the vehicle fleet of cargo, passenger transportation and tourism federal public services in the man-truck segment (up to five units) and small carrier (up to 30 units). 24 credits were issued for 34 million pesos.

V. Economic Reactivation

45 credits for 46 million pesos (authorized amount) were issued among the following standout programs:

- **Support Program for Businesses affected by Environmental Contingencies:** It contributes to the economic reactivation of businesses in Nayarit that were affected by hurricane Willa on October 2018, with financing for the necessary investments to reestablish operations and protect jobs. 28 credits were issued for 28 million pesos.

VI. Sustainable Financing

3,201 credits were issued for 523 million pesos.

- **The Eco-Business Credit for Energy Efficiency Program,** in its "massive" and "individualized" modes, the program supports micro and small businesses for the acquisition and/or replacement of efficient equipment, aiming to generate electricity savings. 3,182 credits were issued for 521 million pesos.





ALTERNATIVE CHANNELS

This program provides advice to MSMEs and entrepreneurs through the Customer Service Center and the Outer Promoters Network for the affiliation process of suppliers to the Productive Chains Program and for the procedures to obtain sector-based financing. Likewise, it provides training, technical support and specialized advice to First-Order Companies (EPO, in Spanish) and financial intermediaries to operate electronic products. Moreover, it develops the entrepreneur capital market through investment in innovation and high-impact projects with direct investment and investment funds.

I. Promotion of Sector-based programs

This program develops and implements promotion and sales strategies of some Sector-Based Programs through the External Promoters Network, in particular Economic Stimulus programs.

The SMEs service indicators in the sector-based programs take into consideration efficiency indexes, with the following results:

- 95.1% of SMEs are serviced within five natural days (from the assignment of cases).
- After the SME confirms its interest in getting financing, 95.9% of the dossiers are integrated in 10 natural days.
- After their integration, 96.3% of the dossiers are sent to the counter of the financial intermediary within the following five natural days.

Likewise, a contribution to the balance of sector-based programs of 5,277 million pesos was achieved.

II. Promotion of Factoring

This activity generates and implements strategies of promotion and affiliation to the Factoring Programs in Productive Chains and Financing of Suppliers, jointly with the clients of the Alternative Channels Directorate, by using assorted means such as telephone campaigns through the Customer Service Center, e-mails, events and information desks, among others.

The main results of fiscal year 2019 are as follows:

- Affiliation of 3,134 new suppliers to the Productive Chains Program.
- 94% of the suppliers that published recorded operations.

Likewise, it contracts and manages the Customer Service Center. The main results at the end of fiscal year 2019 are as follows:

- Service to 202,544 calls, 84% of which corresponds to users of the Productive Chains Program.
- The Productive Chains suppliers carried out discounts of their bills through the telephone for the amount of 24,631 million pesos, which represents 10% of the total operated in the Program.

III. Administration of Electronic Products

Controls the Administration and Document Management Platforms, as well as Nafinet, a platform that electronically operates the Productive Chains, Financing to Distributors and Electronic Credit products. Likewise, it provides training, specialized advice and technical support to financial intermediaries, EPOs and internal areas, and carries out the documentary review of the affiliation dossiers to Productive Chains and Sector-Based Programs.

Some of the volumes of the platforms include the following:

- Supervision and follow-up to more than 9,200 average daily operations (Chains and Credit at Fixed and Variable Rates, Emergent and Micro-loan) with daily average amounts of more than 1,151 million pesos.
- Servicing and support to more than 84 banking and non-banking financial intermediaries for credit operations and queries.
- Funds dispersal to SMEs and financial intermediaries by a monthly average of 800 million pesos on account of the EPOs, through the Productive Chains.
- Implementation of 22 productive chains.
- Documentary review of 4,321 credit and factoring dossiers.

ENTREPRENEUR CAPITAL

Promotes direct or indirect investment projects through investment funds. It consists of six portfolios: Conacyt-Nafin Fund, Seed Capital Joint Investment Fund, Ecosystem of Entrepreneur Capital, Mexico-Ventures Fund, and IMPI-FUMEC Patenting Support Program. These portfolios are managed and operated through participation in the management boards and stockholder meetings of the businesses, investment committees of the funds, and follow-up meetings with the contributing organizations.

The main results at the end of December 2019 are as follows:

- **Seed Capital Joint Investment Fund.** Capital for 435.5 million pesos has been committed to 11 investment funds which have supported 91 businesses, achieving two disinvestments for the amount of 8 million pesos. Likewise, 76.2 million pesos in direct investments were made in 16 businesses, of which there has been three successful disinvestments for 23.4 million pesos.
- **Development of the Ecosystem of Entrepreneur Capital.** The total amount of the program is estimated at 6,725 million pesos (public and private resources) with a participation of the Entrepreneur Capital Trust Fund for the amount of 1,839 million pesos to support 39 investment funds (reimbursement of resources from a fund for the amount of 40 million pesos) which were invested in 243 businesses.
- **Conacyt-Nafin Fund.** The total investment of the program was 224 million pesos in 43 businesses. The program is presently in the stage of disinvestment. Disinvestment in 16 businesses for 86 million pesos has been negotiated. 5.34 million pesos were recovered in fiscal year 2019; 14 businesses have been disinvested, and two have an outstanding balance of 2.2 million pesos. The implementation of the Ángeles Conacyt [Conacyt's Angels] Program is in progress.

NACIONAL FINANCIERA

- Mexico Ventures Fund.** There are four funds in operation with commitments for 43 million US dollars, equivalent to approximately 812 million pesos. On July 2019, the commitment of the MVII Fund, Fund of Funds increased by 2.9 million US dollars to reach a total of 5 million US dollars. In 2019, there were investments for 3.33 million US dollars, equivalent to approximately 62.9 million pesos.
- IMPI-FUMEC-Nafin Patenting Support Program.** In this program, the Entrepreneur Capital Trust is the vehicle to manage and transfer the resources from the Mexican Institute of Industrial Property Protection (IMPI, in Spanish) to the United States-Mexico Foundation for Science (Fumec, in Spanish) which has used those resources to conduct 61 projects of patentability analysis, out of which 50 have been concluded. Out of the concluded projects 16 patents and 26 utility models were obtained, and three were allocated to other IMPI programs.



PORTFOLIO BALANCES OF PRIVATE SECTOR CREDITS

At the end of December 2019, the total balance of the private sector credits portfolio, including guaranteed credits, had increased to 415,496 million pesos, which represents a decrease of 35,622 million pesos (7.9%) compared with last year's same period. Of this amount, the Guarantees Program contributed with 46%, traditional credit contributed with 44%, and Productive Chains contributed with the remaining 10%.

BUSINESS TRAINING AND TECHNICAL ASSISTANCE PROGRAM

The training of entrepreneurs and MSMEs continued in 2019 through two channels: online with the www.nafintecapacita.com platform, and in-person with the Business Development Center and an additional Network of Consultants/Instructors that give conferences, courses, workshops, business development conferences and talks about financing programs, among others.

As of December 31, 2019, 78,006 benefited entrepreneurs and/or MSMEs business owners were attended with courses, workshops, conferences, internships or work meetings, and also with technical assistance. 1,170 beneficiaries attended 27 in-person events; and 36 business development courses, one business diagnosis focused on technical assistance and two courses for promoters were taught through the e-learning platform, benefiting 76,836 active users (accrued) that have taken 169,422 courses.

Concept	Beneficiaries		
	2019 Annual Program	Performed during Jan-Dec 2019	Progress (%)
Total trained people	62,080	78,006	126
In-person	80	1,170	1,463
Online ^{1/} and ^{2/}	62,000	76,836	124

^{1/}The numbers are accrued. From 2018 the numbers will be based on the "Active users that took a course".
^{2/}Includes the beneficiaries of technical assistance.

I. New contents and updating of online courses

29 courses were developed and updated from January to December 2019. Said courses have learning modules, connecting videos, reinforcement activities with an easy to navigate tool that is very responsive for mobile devices, in accordance with the following:

- Taking into consideration new technologies and architecture for the development of courses in the www.nafintecapacita.com platform, the contents of 25 courses were updated, included, but not limited to: Forjando Innovadores Protegidos [Training Innovators] and Iniciativa Mujer [Women's Initiative].
- A new online course titled "Incorporation and registration process of a Multiple Purpose Financial Institution (Sofom) before the appropriate authorities for the integration thereof to Nafin's network".
- From its connection with the National Bank of Foreign Trade (Bancomext, in Spanish) there are three contents regarding foreign trade: Types of financing, How to analyze your financial statements? and Export credit insurance.

II. Specialized communities

They are a custom-made solution where the connected organizations select the training and technical assistance course that adapt to the needs of their target audience. At the end of 2019 there are nine communities, of which the following stand out: Trucking National Chamber (Canacar, in Spanish), Tourism Competitiveness Institute, 2030 Agenda, Non-banking Financial Intermediaries (IFNB's, in Spanish), Empeña Tlaquepaque (Loans program for the city of Tlaquepaque), Bancomext, Microcréditos para el Bienestar [Microloans] program, Local government of the city of Reynosa and the Secretariat of Transportation of the State of Mexico.

III. Professionalization of Non-Banking Financial Intermediaries

In coordination with the National Banking and Securities Commission (CNBV, in Spanish), the National Commission for the Protection and Advocacy of Financial Services Users (Condusef, in Spanish) and the Association of Limited and Multiple Purpose Financial Institutions (Asofom, in Spanish), a guide titled "Incorporation and registration process of a Multiple Purpose Financial Institution (Sofom) before the appropriate authorities for the integration thereof to Nafin's network" was developed.

IV. Business development and financing conferences

- Associations with organizations and strategic alliances, like the United Nations Development Program, the Asofom and the Secretariats of Tourism and Economy, among others, make possible the realization of the Business Development and Financing Conferences: events where lecturers give conferences focused on strategic sectors at no cost to Nafin.
- At the end of 2019, 14 conferences were imparted, of which the following stand out: Insights and Financing for Sustainable Tourism; 2030 Agenda, Sustainable Development Objectives; Accounting Criteria for IFNB; Industry 4.0; Development of Suppliers according to 2020 USMCA economics; Foreign Trade; National Machining Industry; Mexican National Standard NOM-035, Favorable and Productive Organizational Environment, and Barriers and Fears that Experienced Entrepreneurs Face, among others.



V. Associations

Institute for Mexicans Abroad. Online training for compatriots was made possible in the framework of the Week of Financial Education Conferences in the United States and Canada, coordinated by the Institute for Mexicans Abroad (IME, in Spanish) of the Secretariat of Foreign Affairs on March 2019. A booklet called “Más vale estar preparado” [Better be ready] promoting the www.nafintecapacita.com platform was issued on that regard and with the cooperation of participating organizations.

Nafin-Bancomext. On June 20, 2019, the joint first training workshop took place with three conferences the same day: Foreign trade financing, Letters of credit and International factoring, with 33 attendants and an acceptance level of 96%. That workshop was repeated on August 2019, with 50 attendants and an acceptance level of 96%.

Secretariat of Economy (SE). The Collaboration Agreement for Training of Small and Medium-sized Establishments (SMEs) in the Exchange of Best Practices was executed on July 9, 2019.

Canacar. At the end of 2019, the www.nafintecapacita.com platform has registered 872 members of the Canacar community, out of which 574 have gained training by taking 3,131 courses.

VI. Meetings to exchange better practices and internships

Seven meetings of exchange of better practices and internships had taken place at the end of 2019. 1) John Hopkins School of Advanced International Studies; 2) Nafin’s National Workers Union; 3) Interdisciplinary School of Engineering and Social and Administrative Science (UPIICSA, in Spanish); 4) Universidad Anáhuac, Campus Querétaro; 5) Alliance for Financial Inclusion (Banco Mundial-SHCP); 6) Bank of El Salvador, among others, with 123 attendants and a satisfaction level of 91.86%.

INSTITUTIONAL PROMOTION NETWORK

The Deputy General Directorate of Institutional Promotion, through its Regional Directors and State Representatives Network, is the main association channel of Nacional Financiera with business owners of the 32 states. Its onsite work contributes to the creation of business through the promotion, sale and assistance in the implementation of institutional products and services, with the ultimate



goal of driving the economic development of the country's states and regions.

The forging of alliances with strategic public and private players, jointly with the generation and analysis of economic information, permits to know and address specific needs of the states and their businesses, and identify national strategic sectors and priority occupations at the regional scope.

I. Stimulus and Emergent Programs

The Programas Impulso [Stimulus Programs] are a basic tool for economic development through support to SMEs of the strategic sectors as determined by the state's governments. At the end of December 2019, 1,430 credits had been issued under that modality, for 2,509.5 million pesos.

Throughout the year, 25 states had Stimulus Programs; in 13 states the programs had been implemented in past years, and in 12 states the programs were implemented in 2019.

This program was implemented for the first time in the State of Tlaxcala.

II. Public Chains

The Public Chains program has a double role in economic development; on the one hand, it is a transparency and accountability instrument, and on the other hand, it supports the government's suppliers. In 2019, 17 productive chains of the public sector operated in the states, for a total amount of 3,588 million pesos. Nine productive chains belonged to state governments, for 2,905 million pesos, and eight productive chains belonged to municipal governments, for the amount of 683 million pesos.

The operation of these instruments by other government agencies has been sought, in addition to the chains operated by state and municipal governments and other public institutions. Thanks to promotion efforts, at the end of 2019, 9 of 16 Integral Port Administrations (APIs, in Spanish) had a chain.

Active productive chains of state governments at the end of 2019

State	Operation (million pesos)
Chihuahua	697
Zacatecas	511
Nuevo León	366
Sonora	300
Colima	240
Estado de México	52
Oaxaca	21
Durango	242

Active productive chains of municipal governments at the end of 2019

State	Municipality	Operation (million pesos)
Jalisco	Guadalajara	235
Sonora	Hermosillo	38
Michoacán	La Piedad	13
Colima	Manzanillo	6
Jalisco	Zapopan	114
Jalisco	Tlajomulco	44
Nuevo León	Water and Drainage Services of the city of Monterrey	160

III. Private Chains

Private Chains continues to be an important product to develop big businesses' suppliers throughout the country, by providing them immediate liquidity advancing the payment of their accounts receivable. During 2019, the promotion of this instrument has gained relevance for the Deputy General Directorate of Institutional Promotion, because it is closely connected with the goals of the new 2019-2024 strategy that aims to strengthen the supply chain of businesses to increase national contents and replace imports. This area managed the implementation of 39 Private Chains, which operated 6,019 million pesos, during the period of reporting.

IV. Selective Securities

The Selective Securities program issues financing to high economic impact projects, that drive the regional development and job creation. In 2019, the Deputy General Directorate of Institutional Promotion has sought to bring this product closer to the strategic sectors defined by the General Directorate and local occupations. 42 Selective Securities were operated through the network from January to December for 3,092 million pesos, with an average ticket of 74 million pesos.



V. IFNBs

Non-Banking Financial Intermediaries (IFNBs, in Spanish) are key allies of economic development for the states, due to their ability to distribute resources intended for businesses belonging to the national strategic sectors and regional priority occupations that have no access to commercial banking financing. The Deputy General Directorate of Institutional Promotion placed 219 million pesos through IFNBs during 2019.

VI. First-Tier

The First-Tier financing aims to issue medium and long terms financing to businesses through the design, structuring and implementation of financing schemes in accordance with the specific characteristics of strategic projects for the development of the country. In 2019 the Deputy General Directorate of Institutional Promotion focused in prospecting clients from the national strategic sectors that require this type of financing. Thanks to its efforts, 2,113 million pesos were issued through this product.

VII. Treasury Contracts

The Deputy General Directorate of Institutional Promotion has searched for a closer association with the Nafinsa Funds Broker (Ofinsa, in Spanish), since this organization provides a highly attractive service for state and municipal governments, and for government institutions, by managing their resources through government funds that meet the investment guidelines of the Secretariat of Finance and Public Credit (SHCP, in Spanish). In 2019, contracts for 948 million pesos were signed with Ofinsa, through the Deputy General Directorate of Institutional Promotion.

VIII. Contribution to the economic development of the country's states and regions

To implement strategies that contribute to the substantial economic development of the country, in 2019 the Deputy General Directorate of Institutional Promotion focused its promotional efforts in actions differentiated per state and region, with basis on the following segmentation of the country:



| NACIONAL FINANCIERA

Likewise, the expansion of the portfolio of clients from the industrial sector was sought, specifically from the 10 national strategic groups as determined by the General Directorate::

Transportation	<ul style="list-style-type: none"> - Automotive parts - Aerospace
Electric – Electronic	<ul style="list-style-type: none"> - Electronic - Audio and Video Equipment - Electrical and Lightning - Communications Equipment
Molding of pieces	<ul style="list-style-type: none"> - Plastic Pieces - Metallic Product - Molding of Pieces
Capital goods	<ul style="list-style-type: none"> - Engines and Turbines - Capital Goods
Textiles, clothing and footwear	<ul style="list-style-type: none"> - Textiles - Clothing - Footwear
Health	<ul style="list-style-type: none"> - Medical Devices - Medical Equipment - Pharmaceuticals - Human Biotechnology
Technology	<ul style="list-style-type: none"> - Digital Industries - Robotics - Clean Energies - Nanotechnology - Biotechnology
Energy	<ul style="list-style-type: none"> - Clean Power Generation - Oil & Gas – Supply (Pemex – CFE)
Tourism	<ul style="list-style-type: none"> - Hotel and tourism, Business, Health and retirement infrastructure - Tourism Services - Medical Parks Equipment
Financial sector	<ul style="list-style-type: none"> - Non-Banking Financial Intermediaries - National and Foreign Investment Funds

IX. Strategic associations with large private employers and Business Organizations

In 2019, the Deputy General Directorate of Institutional Promotion focused its efforts in the creation of strategic associations with large private employers and businesses chambers that represent the strategic and occupational regional sectors, with the purpose of designing custom products (tools), promote the value chain (suppliers' development) and carry out business training and technical assistance. Sixteen agreements were signed during the year.

X. Opening of the Deputy General Directorate of Institutional Promotion in Torreón, Coahuila

The Deputy General Directorate of Institutional Promotion opened in Torreón, Coahuila on September 26, together with the Northeast Regional Office and State Representation of Coahuila, which will address any financing, business training and institutional communications requirements.



XI. Advisory Councils

The 32 work teams, one per state, were restructured in 2019. The purpose of the restructuring was to renew their vocation as promoters of the industrial sector through: stimulus to volume exports and export to new markets; increase of national content in export goods and internal consumption; substitution of imports of intermediate and final goods; promotion of manufacturing and export of capital goods; promotion of bank mediation and development of non-banking financial institutions and the pursuit of a greater sectorial and regional stimulus based on occupations and capacities.

Currently the Network consists of more than 500 advisers: leading business owners of regional strategic and occupational sectors, chairmen of business associations and organizations, secretaries of economic development of state governments and deans of higher education institutions that focus on technology. The foregoing are organized in local and regional work committees to service: a) local governments (states and municipalities); b) banking and non-banking financial intermediaries; c) research and academic centers; d) business chambers, organizations and clusters; e) integrated production and large private employers, and f) regional strategic and occupational sectors.

The National Meeting of Advisers, held on November at the facilities of Nacional Financiera, organized state and sectorial committees that defined strategic agreements to promote regional growth un-



der the national strategy of Bancomext and Nacional Financiera. This event had 399 attendants: 245 business owners, 20 secretaries of economic development, 44 chairmen of business chambers and organizations, 17 deans and directors of universities and research centers, and 73 officers of Nacional Financiera, Bancomext and the Executive Branch of the Federal Government.



03

CORPORATE BANKING

STRUCTURED AND CORPORATE CREDITS

Structured credit provides financing through a specific purpose vehicle whereby businesses monetize their assets' portfolios, allowing to isolate operational risks and obtain higher credit ratings, without negative effects on balances. This program is aimed at medium and large businesses that create a portfolio with collection fees.

Securities market boost

Nafin keeps boosting the securities market through financing:

- 300 million pesos in financing were authorized for an instrument intended for the development of the real state sector in Mexico, that indirectly also promotes growth of the industrial and services sector.
- Financing for 100 million US dollars was authorized for an instrument intended for the maturity of underlying assets to promote the development of industrial infrastructure, including the purchase of property portfolios.
- A private long-term bond was issued for a gas distribution pipe, to complement the financing package and to use these new resources -through the sponsor- for the construction of new energy projects in Mexico.

GOVERNMENT BANKING

Nafin continued to manage a line of credit issued to Petróleos Mexicanos (Pemex), with a balance of 2,444 million pesos as of December 31, 2019.

INVESTMENT PROGRAMS

I. Direct Stock Investment

Regarding the permanent portfolio of businesses, during 2019 Nafin followed up the actions performed to cancel reserves and close uncollectable investments.

On the other hand, five capital calls were addressed during the year for an amount of 3.9 million US dollars which correspond to a bilateral fund that promotes energy and telecommunication companies, in which Nafin holds stocks.

II. Indirect Stock Investment

Nacional Financiera fosters and develops the industry of risk capital in Mexico through the Corporación Mexicana de Inversiones de Capital, S.A de C.V. (CMIC or Fund of Funds). The CMIC corporate structure is divided in nine vehicles with specific investment reasoning in Private Capital, Entrepreneur Capital or Venture Capital, Mezzanine Debt and Energy Sector.

As of December 2019, the CMIC holds commitments for 997.3 million US dollars in 88 investment funds and 29 direct joint investments that support 282 Mexican businesses and more than 75,345 direct jobs and 309,822 indirect jobs. Moreover, the CMIC manages more than 10,915 million pesos from the Administrators of Retirement Funds (Afores, in Spanish) through the issuance of five Development Capital Certificates (CKDs).

On the other hand, Nafin is a partner of Development Bank of Latin America (CAF), holding 1.11% of the ordinary stock of the multilateral organization.



The Chairman of the Board of Directors of Nafin (the Secretary of Finance and Public Credit) is member of the CAF's Board of Directors, with the aim of promoting financial and technical cooperation schemes for the development of our country's SMEs.

III. Program of Institutional Market of Corporate Alternative Debt–MIDAS

To effectively carry out its mandate, Nacional Financiera has designed the institutional program called Mercado Institucional de Deuda Alternativa Societaria [Program of Institutional Market of Corporate Alternative Debt (MIDAS)] program, which pairs the credit support of the institution so businesses may implement their modernization and expansion plans, and the promotion of the securities market by means of boosting companies so, in no later than three years, they become candidates to issue debt in the Mexican Stock Exchange (BMV, in Spanish) through compliance with an institutionalization program of their corporate governance, aimed at contributing to and solidifying the permanence of the company in the market, and providing transparency and certainty to third parties as a future public company.

In this context, Nafin was incorporated to the Prime Certifying Committee, thanks to the joint efforts of Bancomext, the Mexican Securities Industry Association (AMIB, in Spanish) and the BMV to develop businesses with corporate governing bodies and the possible issuance in the debt market.

SUSTAINABLE PROJECTS

The institution, in line with the sustainable exploitation of natural resources and to promote the use of low-carbon emissions technologies and renewable energy sources, promotes financing schemes and investments from diverse sources aimed at electrical power generation projects through renewable sources and clean technologies, to optimize the use of public investment as a complement to private investment, and actively contribute in the achievement of the new scopes, responsibilities, invest-

ments requirements and goals of the energy sector. The foregoing focuses on the development of national suppliers, the creation of jobs and social benefits.

At the end of 2019, the balance of this portfolio maintained an increase vs 2018 (25,621 million pesos), mainly a product of the availability of resources for new projects.

In this regard, the following 2019 projects stand out:

Photovoltaic solar plant in Aguascalientes. A simple credit was authorized to finance the construction and operation of a project with a 300 MW capacity.

Wind park in Yucatan. One simple credit was authorized for the financing of the Valued Added Tax (VAT) generated by the investments required for the construction of the project with an installed capacity of up to 90 MW. This project was executed on the second quarter of 2019.

With the above Nafin continues driving national development through financing aimed at the priority and high impact energy sectors.

04

INTERNATIONAL

PROJECT MANAGEMENT

At the end of 2019 there is a portfolio of 18 lines of credit for the amount of 1,334.33 million US dollars with assorted International Financial Institutions (IFI): The German Development Bank (KfW), the Inter-American Development Bank (IDB), the European Investment Bank, the World Bank and the CAF. Likewise, there are two grants from the IDB for 54.3 million US dollars. During fiscal year 2019 the accrued disbursements of the loan contracts in operations with resources such as an IFI direct lender amounted to 101.23 million US dollars from the line of credit contracted with the KfW, intended for the Renewable Energy and Energy Efficiency program.

The following are IFI's financing project in operation or being negotiated during 2019:

Operating financings

Loans and technical cooperation from the IDB and Clean Technology Fund to finance the Geothermics Financing and Risk Transfer Program.

The main objective of this program is to mitigate the risks of geothermal exploration and move investments to increase the electrical power generation capacity from geothermal resources in Mexico.

Final financing amounts to 54.3 million US dollars for the construction, modernization and expansion of operating plants and transmission lines, supplemented by non-reimbursable financing with contingent recovery of 51.5 million US dollars for the exploratory phase.

The Program was introduced during the 5th Latin America and the Caribbean Geothermics Congress that took place in Mexico City. Likewise, this year the Call for Developers and International Public Bid was published in the INEEL website and the Federal Official Gazette, respectively.



During the first quarter of 2019 many follow-up meetings were held with the teams from the National Institute of Electricity and Clean Energy (INEEL, in Spanish), the IDB, Nafin, the Secretariat of Energy (Sener) and the Electricity Federal Commission (CFE, in Spanish), to present the Program to the teams of the new administration.

The continuity of the program was ratified for the second quarter of 2019; however, since some adaptations were required, on September 12, the 2018 Call for Developers was declared void, mainly because the submitted proposals did not meet the requested technical-economical requirements. The INEEL is preparing a new call on late 2019 which will be published in the first quarter of 2020.

Promotional financing line with KfW for 50 million US dollars for renewable energies.

Loan contract signed in December 2016 and completely disbursed that same year, to support the financing of a wind park. Contractual commitments were duly fulfilled during fiscal year 2019. Under this loan contract Nafin is obliged to develop and implement an Environmental and Social Risks Management System (ESRMS) that is tailor-made and proportional to its operations, and that meets the requirements of national laws and international standards, and that is partially funded with KfW resources through financial cooperation.

I. ESRMS Financial Cooperation

The ESRMS is an integral management framework that includes policies, procedures, tools and actions of internal communication and training to identify, supervise and manage the exposure that Nafin and its activities may have regarding potential environmental and social impacts within the credit process.

With the ESRMS, the institution will strengthen its capacities for evaluation, mitigation, management, documentation and monitoring of impacts and risk associated with financing and investment, and will be positioned as a leading institution in green financing.

Since August 2017, KfW has hired the services of the consulting firm ERM to develop, implement and assess an ESRMS suitable to Nafin's portfolio; the firm's

work has produced a draft (90% advance) for the operations manual, and their respective annexes (Institutional Environmental Policy and List of Exclusion of Projects). These documents were shared with Nafin on October 2018.

The following actions have been carried out during fiscal year 2019

- Work with the consulting firm ERM were resumed.
- On October 2019 the ESRMS Coordinating Office, that reports to the Deputy General Directorate of Credit, was created in Nafin to start the implementation of the system.
- Financing the hiring of two experts (social and environmental, respectively) to form a team to support the ESRMS coordinator was negotiated with KfW. Such hirings will take place on the first quarter of 2020.

II. Uncommitted line with CAF for 300 million US dollars

This is a revolving line of credit for working capital of the institutions, for the use of the International Treasury. This line was executed in 2013 and it remains valid until the parties decide otherwise. A total of 400 million US dollars were borrowed during fiscal year 2019.

III. Concessional financing line of the KfW for 56.59 million US dollars (Proamu Phase II) and 53.43 million US dollars (Proamu Phase III), both in support of water desalinization projects

In September 2009, within the framework of intergovernmental negotiations, Germany allocated concessional resources to the Mexican government in the amount of 90 million euros to support, through development banking, potable and residual water projects.

On December 20, 2017, Nafin contracted with KfW a loan for 56.59 million US dollars to support a water desalinization plant (Proamu Phase II) project in the beaches of Rosarito, Baja California. For reasons outside the control of the institution the financial closing of the project was delayed, thus the loan has not been disbursed. Due to complications in the project, Nafin renegotiated more competitive credit conditions with KfW to adjust to them to the current needs of the project; such conditions were formalized with the signing of an amendment letter on November 13, 2019, that extends the payment that corresponds to the commitment fee for up to 12 months, and an extension of the loan term from 10 to 15 years, including five years of reprieve.

During the renegotiation of the conditions, KfW presented a proposal for a new line of credit for up to 48 million euros, or the equivalent amount in USD to support the same project under similar conditions (extension of the commitment and management fees payment and without cancellation costs).

With the authorization from the Board of Directors of Nafin, the extension of the line of credit for 53.43 million US dollars (Proamu Phase III) was contracted with KfW on December 19, 2019. It is expected that the financial closing takes place during the second quarter of 2020.

IV. KfW's financing line for 34.02 million US dollars for the Forestry Investment Program

At the request of the SCHP, Nacional Financiera supports the Trust Funds for Rural Development (FIRA, in Spanish) to contract a concessional loan with the KfW for 34.02 million US dollars. Since the organization does not have sovereign guarantee, the resources will be transferred to the FIRA under favorable



conditions, plus operational and risk costs incurred by Nafin due to their mediation. This borrowing line is accompanied by a financial contribution of 6 million euros to implement accompaniment measures of the program, under FIRA's responsibility. The loan contract was executed on December 18, 2018.

Work meetings with the FIRA and KfW took place during fiscal year 2019 to negotiate the agreements separate from the loan and financial contribution, and the agreement between Nafin and FIRA to transfer to the latter all the terms and conditions of the contract signed between Nafin and KfW. Finally, these documents were executed on October 2019, and the conditions prior to the first disbursement were met on December 20, 2019.

V. Concessional financing line of KfW for 113.4 million dollars to support the Renewable Energies and Energy Efficiency Program

In the framework of the celebration of the Mexico-Germany two-year cooperation and exchange pact, on April 2016 the government of Germany assigned concessional resources to Mexico in the amount of 100 million euros, or the equivalent in US dollars, intended for climate change mitigation actions. The following was established to meet the above goal: i) Financing support for large scale photovoltaic solar projects and energy efficiency and ii) photovoltaic solar generation projects in SMEs.

In this context, Nafin and KfW negotiated a loan contract for 113.4 million US dollars structured in two tranches:

- Tranche I: an allocation of 45.36 million US dollars intended for investment in solar panels and energy efficiency and generation projects distributed in SMEs.
- Tranche II: an allocation of 68.04 million US dollars intended for construction and operation of solar plants.



The negotiators executed the loan on December 18, 2018.

The first disbursement of Tranche I took place on the second quarter of 2019, in the amount of 33.19 million US dollars, and supported 4,836 SMEs with credits issued through the Electric Power Savings Trust. The disbursement of the remaining amount (12.17 million US dollars) is expected on the first quarter of 2020.

Tranche II was fully disbursed on the first quarter of 2019: 50.07 million US dollars in May, intended to fund two solar parks in the states of Sonora and Chihuahua, and the remaining amount of 17.97 million US dollars was disbursed in July to finance a solar park in the state of Zacatecas.

Financing in negotiation

I. Concessional financing line with KfW for 100 million euros

In the framework of the celebration of the Mexico-Germany two-year cooperation and exchange pact, the government of Germany assigned concessional resources to Mexico for a climate change mitigation program for the Mexican transportation sector. As part of the preparation work, KfW hired a consultancy team tasked to prepare a feasibility study about Nafin's programs in the sector. Such study was finalized in April 2018 and was the basis for the design of the program.

placed by the financed units. This fund expects to have non-reimbursable resources from the Latin America Investment Facility (LAIF) of the European Union, for up to 10 million euros, and will be supplemented with contributions of the states that decide to participate; and iii) technical assistance for the participating states and Nafin for up to 2 million euros from the LAIF.

The KfW team carried out two tours in 2019 to assess the program and identified many Mexican federal states as possible counterparties and non-refundable resource contributors for the implementation thereof.

In 2020, it was determined that a specialist consultant in transportation will be hired for one year to support Nafin in the search of better strategies for the design, analysis, assessment and realization of the program.

Likewise, KfW will process before the LAIF the aforementioned resources on the first quarter of 2020.



The goals of the program are as follows:

- Support Mexico in meeting its goals regarding climate change, through the reduction of greenhouse gases and other pollutants such as black carbon and suspended particles produced in its transportation sector.
- Promote the renewal of the vehicle fleet through credits to passenger and freight public transportation MSMEs.

The program consists of three components: i) financing of vehicles through a concessional credit issued by Nafin and the KfW for up to 100 million euros; ii) a renewal fund that provides economic stimulus to MSMEs in exchange for the destruction of old vehicles which are then re-

II. Nama Facility Fund/GIZ financial cooperation

The German Agency of International Cooperation (GIZ, in German) is supporting the Mexican government in the implementation of their Nationally Appropriate Mitigation Actions (NAMA) as part of their commitment to combat climate change in our country.



The SMEs sector has identified the Eco Crédito Empresarial [Entrepreneurial EcoCredit] program of Nafin as a NAMA for SMEs that requires development, thus a request is being made to the Nama Facility Fund for a financial contribution of up to 9.5 million euros to Nafin to strengthen such program. The resources are mainly intended for the guarantees fund and the financing of energy audits to identify potential projects.

There have been meetings between Nafin and GIZ in 2019 to clarify certain technical aspects of the program (energy diagnosis, implementation mechanisms, participating players) and to agree on which Mexican institution will be a counterparty to this program.

INTERNATIONAL COOPERATION

I. The Montreal Group

The Montreal Group is a non-profit association created in September 2012 that pretends to exchange experiences between financial institutions dedicated to the development of SMEs. Currently the group consists of eight banks: Banco Nacional

de Desenvolvimento Econômico e Social, from Brazil; Banque Publique d'Investissement, from France; Business Development Bank of Canada; Caisse Centrale de Garantie, of Morocco; China Development Bank (CDB); Finnvera of Finland, Nacional Financiera, and Saudi Industrial Development Fund, of Saudi Arabia. The annual membership fee is 20,000 Canadian dollars.

The 8th annual meeting of the Montreal Group took place on May 15-17 in Beijing, China, hosted by the CDB. The results from the "Online services and digitalization" and "Medium businesses growth" corresponding to the 2018- 2019 period were presented during the meeting. Arising from the talks carried out during the event, and after consulting the members for their opinions, a decision was reached that the work groups for the 2019-2020 period will address the subjects of "Medium businesses growth focused in management training for entrepreneurs" and "Advanced risk analysis". Likewise, it was agreed that timely discussions will be organized around the subjects of interest for the group members, including, but not limited to, fintech, cleantech, internationalization of SMEs and fund of funds.

II. Inter-American Development Bank (IDB)

Nacional Financiera attended the Green Bank Design Summit, from March 18-19 in Paris, France, at the invitation of the IDB. The event gathered representatives from emerging and developing countries and key players from multilateral organizations, financial development institutions, green banks and private institutions that participate in climate financing, with the goal of exchanging knowledge and proposals in the face of shared challenges on the subject, and trace critical routes to either promote the development of green banks or have the institutions that already participate in this type of investments to strengthen their role.

At this event, Nafin had the opportunity of sharing its experience in financing sustainable projects and at the same time became acquainted with other successful experiences in other countries and which may be useful to consolidate a green strategy at the institutional level and in coordination with the country's key players.

III. Latin American Association of Development Financing Institutions (Alide, in Spanish)

Likewise, Nafin attended the 49th Ordinary Meeting of Alide's General Assembly, held from May 20-22 in Madrid, Spain, hosted by the Spanish Official Credit Institute (ICO, in Spanish). The core subject of this year's meeting was "Experiences and Financial Cooperation between Europe and Latin America and the Caribbean. Latin America and the Caribbean Commerce and Investments in the Global Context: Actions from Development Banking", which was focused in the analysis of the international economic landscape, the insertion of Latin America and the Caribbean in the international economy, the commercial relationship and opportunities of the region with the European Union, the role of development banking in Latin American foreign trade and international business, as well as the importance of the strategic initiatives that SMEs need for their internationalization. In parallel with the Alide's sessions, Nafin held bilateral meetings with Green Climate Fund, ICO, International Development Finance Club, IDB and KfW.

IV. Green Climate Fund (GCF)

In 2015, the SHCP, in its role as National Designated Authorities (NDA) before the GCF, submitted the official nomination of Nafin to start the process of accreditation as the National Implementing Entity before the Fund, a process that was successful. To start the process and meet the requirements, Nafin took an interest in accessing funds from the GCF's Readiness Programme to assess and strengthen their capacities. Therefore, in 2016, the firm PriceWaterhouseCoopers (PwC), hired by the Fund, carried out an assessment of Nafin's capacities and compliance with the requirements established by the GCF. PwC prepared the document "Gap Assessment Template" to point out the identified gaps and make recommendations to Nafin.



In 2017, PwC proposed an Action Plan to address such gaps and advance in the accreditation process. Nafin started collecting the documentation required for the application, which was formally submitted to the Fund through its Online Accreditation System (OAS). The accreditation fee established by the GCF was settled in 2018 and the Secretariat carried out a first review of Nafin's application, upon which a new information requirement was made, which had to be addressed by the institution.

In late 2019, Nafin restarted the collection process of the information requested by the Secretariat to complete Phase I of the accreditation process of the institution. The Directorate of International Organizations of Nacional Financiera shall submit this information to the Secretariat via the OAS.

FINANCIAL AGENT

As of December 31, 2019, the portfolio of Financial Agent in execution consisted of 16 loans and six donations, for a total amount of 2,095 million US dollars. Six of the 16 loans belong to the IDB, six to the International Bank for Reconstruction and Development (BIRF, the original World Bank institution), three to the International Fund for Agricultural Development (IFAD) and one to the French Development Agency (AFD); while out of the six donations, five were from BIRF and one from the IFAD.

From January to December 2019 different executors were engaged to review if amendments to the loans, or a restructuring thereof, was necessary, with the purpose of aligning them to the new priorities and strategies of the Mexican government. For the cases that did not required any changes, the executors continued receiving advise to both guarantee the fulfillment of contractual commitments and ensure the eligibility of the expenses at the time or reviewing the purchase processes under the regulations of International Financial Institutions (IFI's). In this regard, 22 IFI's supervision missions were addressed during the period, seven of which were onsite visits. There were visits to the State of Oaxaca to supervise the beneficiaries that participated in the financial inclusion program of the Social Economy Project: Territory and Inclusion, under the responsibility of the National Institute of Social Economy. Likewise, there were visits to the State of Chihuahua to supervise small semidesert producers that use natural resources to manufacture artisanal products within the framework of the Sustainable Development Project for Rural Communities of Semiarid Areas (North and Mixteca regions) under the responsibility of the National Forestry Commission (Conafor, in Spanish). There were also mission visits to Morelia and Guanajuato to meet the corn producers that are rehabilitating their grain storage silos as part of the Grain Storage and Information Services for Agricultural Competitiveness Project, under the Agency for Commercialization Services and Development of Agriculture and Livestock Markets, and there was a tour of the main avenues of León, Guanajuato, which now have a renewable public lighting system as part of the actions of the Municipal Energy Efficiency and Sustainability Project that is executed by the Secretariat of Energy (Sener). Likewise, a training workshop about the role of the Financial Agent was imparted so that the new Conafor authorities become acquainted with the regulations applicable to projects supported with foreign credits, and with the commitments that must be fulfilled with the IFI's.

On the other hand, from January to December 2019 the execution of the donation for the Coastal Basins Preservation Project in the amount of 9 million US dollars issued by the World Bank was completed. In that regard, the closing mission took place from May 27-31, 2019, and pointed out that the project met all its goals of operation and technical results, and thus is considered a successful model of interinstitutional

cooperation for the sustainable management of the territory.

The execution of the following loans was concluded: School Management Project, in the amount of 350 million US dollars and under the responsibility of the Secretariat of Public Education; and the loan for the Project of Reduction of Unequal Educational Opportunities, in the amount of 120 million US dollars, under the responsibility of the Educational Promotion National Board. In both cases, the scores issued by the World Bank to the projects were satisfactory.

Likewise, the loan for the Support Program for the Implementation and Strengthening of Energy Reform, for 600 million US dollars and under the responsibility of the Sener was closed, and also the execution of the Support Project for Strengthening the PROSPERA Social Inclusion Program, which was under the responsibility of the National Coordination of PROSPERA (today the National Coordination of Benito Juárez Welfare Scholarships), for 600 million US dollars.

On the other hand, a new operation that the SHCP will contract with the BIRF in 2020, in which Nafin will participate as Financial Agent, was being negotiated during the last quarter of the year.

The main sectors financed by IFIs during the foregoing period were: Energy, Agriculture and Livestock Breeding, Social, Education, Environment and Climate Change. As of December 31, disbursements accounted for 720 million US dollars, while the income for commissions charged as financial agent accounted for 11.7 million US dollars.

05

TREASURY AND MARKETS

TREASURY

I. Collection

In order to ensure that the institution always has sufficient resources and is able to disperse them to the different business areas under the best cost and term conditions, during 2019, the Treasury continued with its priority activities related to the efficiency of the collection strategy, transfer pricing determination, and portfolio and interest rate and liquidity risk management to hedge the institution's balance sheet.

The above in support of the institutional objectives of expansion of access to financing, development of financial markets and projects in high impact sectors, and contribution to a financial profitability that ensures Nafin's long term sustainability.

Regarding the collection in foreign currency, the Deposit Certificates Program of the London Branch continued to be used as the main collection conduit, which, along with the acquisition of the interbank financing lines, time deposits, and working capital lines, has allowed the Treasury to maintain its cost of funding in foreign currency at attractive levels and in line with institutional goals' compliance.

II. Cebures-Euroclear

Continuing with the Syndicated Auctions scheme, on July a placement of Stock Exchange Certificates of the Development Banking (Cebures, in Spanish) was carried out for a total amount of 8,000 million pesos in communicating vessels, of which 2,720 million pesos were assigned fixed rate for ten years, and 5,280 million pesos were assigned to three-year variable rate.

These actions took place within the framework of the 2019 Operational and Financial Program, which aims to contribute to the economic development of the country to facilitate access to financing for MSMEs, as well as to contribute to the creation of financial markets.

III. Balance Management

They kept the strategy of minimizing the exposure of the balance of the institution to movements along the interest rates curve, thus providing coverages necessary to protect the income that the bank receives for financial margin, so complying with the objective of the Treasury of ensuring balance risks are kept within the approved limits, being able to strengthen bank influx. Likewise, an optimization of capital consumption within the institution is achieved.

IV. Investments

In national currency, there is the held-to-maturity portfolio, which is mainly structured with securities of the Federal Government; the liquidity portfolio, comprised mainly by Governmental securities, and which is used as warranty in the payment systems of Banxico, as well as a corporate securities portfolio that contributes to the private debt market development.

Profit generation through financial margin in US dollars resulted from investment portfolios at a certain due date, and available for sale: strategic assets which have been maintained as some of the coverage instruments of the institutional balance, by hosting long-term collection lines. Both portfolios are maintained, practically in full, in investments of issuance from the United Mexican States Bonds (UMS), as well as of national state-owned companies like Pemex and CFE. Moreover, it is important to mention that by the end of 2019, they generated an income of 140.83 million pesos.

Regarding foreign currency liquidity management, the main strategy was to optimize the profitability of surpluses in US dollars, through the execution of synthetic investments in pesos. However, management of liquid resources through checkbooks, and particularly through demand and term deposits with development and commercial banks, allowed the generation of significant interest margins, so that at the end of 2019 the liquidity portfolio generated revenues for around of 23.72 million pesos.

V. London Branch

Despite the complicated international environment during this period, at the end of 2019 the balance of the certificates of deposit issued by the London Branch stood at 1,779 million dollars.

MARKETS

I. Markets Promotion

During 2019, market promotion activities were directed to increase the profitability of the portfolios of the Money, Treasury, and Exchange trading desks. The institution's significant portfolio of clients allowed it to maintain the amount of operation in repurchase and to ensure the capture of resources at competitive levels, despite that from February to December 2019 it operated with only 30% of the staff. It is worth mentioning the important participation of our clients in dollar purchase and investment transactions.

Likewise, internal requirements were met in a timely manner, as well as the various committees in which the Market Promotion Directorate participates, not reporting incidents or observations.

During 2019 the following was achieved:

To reactivate the operation with inactive clients, determining target products in which it is desired to increase the business relationship.

To surpass the budgeted income goal through operations performed with the Exchange trading desk, the Treasury and the clients of the Markets Promotion Department.

To expand the investors database, reaching an agreement with new clients.

Operations were performed only with 30% of the staff, and it reached an average daily balance of 300,000 billion pesos.

In general, enough resources were collected at competitive levels to contribute to reaching the goals of the **Financial Deputy General Directorate (DGA)**, generating a total of **\$337 million pesos** in profits.





II. International Financial Markets

Not exempt from volatility and with few exceptions, international financial markets showed a favorable behavior throughout 2019, both by type of asset and by region.

US stock markets grew at a rapid pace, after the stumbling block in 2018; in 2019 the Dow Jones advanced 22.3%; Nasdaq, 35.2% and S&P 500, 28.9%. In Germany, the Dax index rose 25.5%; the Japanese Nkeei 225 gained 18.2%; the FTSE 100 of the English stock market rose 12.1%, and the Spanish IBEX rose 11.8%.

Among the emerging market indices, the most advanced was the Bovespa, from the Sao Paulo Stock Exchange, which gained 31.6%; China's Shanghai Composite rose 22.3%; the Hungarian stock exchange index gained 17.7%; in South Africa the advance was 8.2%; in South Korea, the Kospi rose 7.7%, and in Poland there was a decline of -5.6%.

As for interest rates, once the FED confirmed that it would stop raising its benchmark rate and months later made reductions in it, bond rates showed general declines in almost all countries in the world. It should be noted that the central banks of other developed countries have maintained a relaxed tendency in their monetary policies and that, in the absence of inflationary pressures, reductions in monetary policy rates were also observed in several of the most important developing economies.

Thus, in the United States the 10-year government bond rate closed at 1.92%, in Italy at 1.41%, in France at 0.12%, in Germany at -0.19% and in Canada at 1.70%, which means drops of -77 bp, -133 bp, -59 bp, -43 bp, and -27 bp, respectively. In emerging markets the movements were steeper, in Russia the drop was -234 bp; in Mexico, -180 bp; in Colombia -138 bp; in Peru -122 bp; in Indonesia -94 bp; -70 bp in Poland, and a 12 bp increase in South Africa, with these variations the rates of return on 10-year government bonds closed at 6.36%, 6.84%, 3.12%, 4.72%, 7.04%, 2.11% and 9.73%, respectively.

In the foreign exchange market, among the most important ones, it was the Russian ruble that presented the greatest advance against the United States dollar, gaining 12.5% in the year, followed by the Canadian dollar with 5.0%, the British pound with 3.9%, the Mexican peso with 3.8% and the Indonesian rupiah, also with 3.8%. On the setback side we found extreme variations such as the Argentine peso, which fell -37.1% and the Turkish lira, with an adjustment of -11.1%, followed by: the Chilean peso with -7.7%, the Swedish krona with -5.5%, the Hungarian guilder with -5.2%, the Brazilian real with -3.9% and the South Korean won with -3.5%.

Finally, in the case of raw materials, the price of West Texas Intermediate (WTI) oil closed the year at \$ 61 dollars per barrel (dpb), which meant an increase of 34.5%; Brent oil closed at 66 dpb, with an advance of 22.7%. Regarding metal prices, the following variations were observed: platinum, 21.5%; gold 18.3%, and silver 15.2%.

III. National Financial Markets

Global liquidity conditions favored the performance of local financial markets; however, some events generated episodes of volatility throughout the year, such as the continuous trade war between China and the United States, geopolitical conflicts in the Middle East, the threat of the United States government to impose export tariffs associated with irregular migratory flows from Central America, the decision to postpone oil and electricity auctions, the renegotiation of gas pipeline contracts with the CFE and the delay in the exercise of public spending due to the corruption fighting policy, among others.

IV. Money Market and Bonds

Bond rates maintained a downward trend throughout the year. The benchmark 10-year bond, M-29, fell -182 bp to close at 6.85%, while, on average, the yield curve was adjusted -180 bp.

The shorter-term rates absorbed practically the entire monetary policy adjustment, that is, -100 bp, the 28-day Cetes fell 92 bp, and the 91-day Cetes fell -94 bp. Likewise, given the expectation that Banxico will continue to lower its reference rate, six-month Cetes fell -130 bp, and one-year Cetes fell -149 bp.

Finally, the surcharges of reviewable instruments had differentiated behaviors. Those of the values of the Institute for the Protection of Banking Savings with monthly and quarterly coupons fell -8.7 bp and -9 bp, respectively, while those of the securities with semi-annual coupons rose 5.3 bp. As for the surcharges of the Bondes D, for the 1-year term the decrease was -5.5 bp; for those of three years, -7.4 bp, and -2.5 bp for those of five years.

V. Exchange Rate Market

With a final exchange rate of 18.8642 pesos per dollar, according to the fix date of determination, in 2019 the Mexican peso registered an appreciation of 4.2% compared to the end of 2018.

During the year there was no firm downward trend. It could be said that there were three moments: continuous drop from January to July, then increases until the end of August, and new drops the rest of the year.

The most abrupt variation occurred in late May, after the threat by the United States government to impose tariffs on imports from Mexico, if our country did not take firm action to contain migratory flows from Central America. Thus, on May 31, the peso-dollar parity reached 19.7005 pesos per US dollar, which meant an increase of 63 cents compared to the previous closing.

On the other hand, Banxico continued with the renewal of foreign exchange hedges under the Non-

Delivery Forwards (NDF) scheme, that kept an amount of 5,500 million US dollars.

VI. Capital Markets

BMV's Price and Quotation Index (IPC, in Spanish) advanced 4.6% during 2019. Uncertainty surrounding the start of the new administration, changes in relation to the rules for investing in certain sectors, such as energy, the renegotiation of contracts with natural gas transport companies for CFE, as well as the delay in approval and subsequent revision of the USMCA, were some of the internal factors that limited the rise in our stock market, which lagged behind others that were mentioned above. IPC's closing level was 43,541.02 points.

VII. Derivatives Market

Throughout the year, both arbitration and hedging operations were carried out, the latter instructed by the Treasury Directorate in order to protect the bank's income from financial margin.



INVESTMENT FUNDS

Nafinsa Fund Operator continues working on the fulfillment of its objective; that is, fostering access to the security market of small and medium investors, through the distribution of stocks of the 13 funds it manages, with 26 agreements executed with 22 commercial brands in the stock market. At the end of December 2019, the average assets managed in investment funds amounted to 21,043 million pesos.

It should be noted that during this period the Fund Operator has interacted with the Deputy General Directorate of Institutional Promotion of Nafin, through its regional offices, to promote the

purchase and sale of shares of the investment funds that it manages, particularly with entities of the Public Administration, such as the finance secretariats of the states, public universities and/or Port Authorities (APIs, in Spanish). Additionally, it participates in the project called "open architecture", which is the product of the Financial Reform and consists of the purchase and sale of shares of investment funds in electronic platforms, so that the shares are easily acquired by public investors; all in accordance with the mission of the trader.

**At the end of December 2019,
the average assets managed
in investment funds amounted to
21,043 million pesos.**



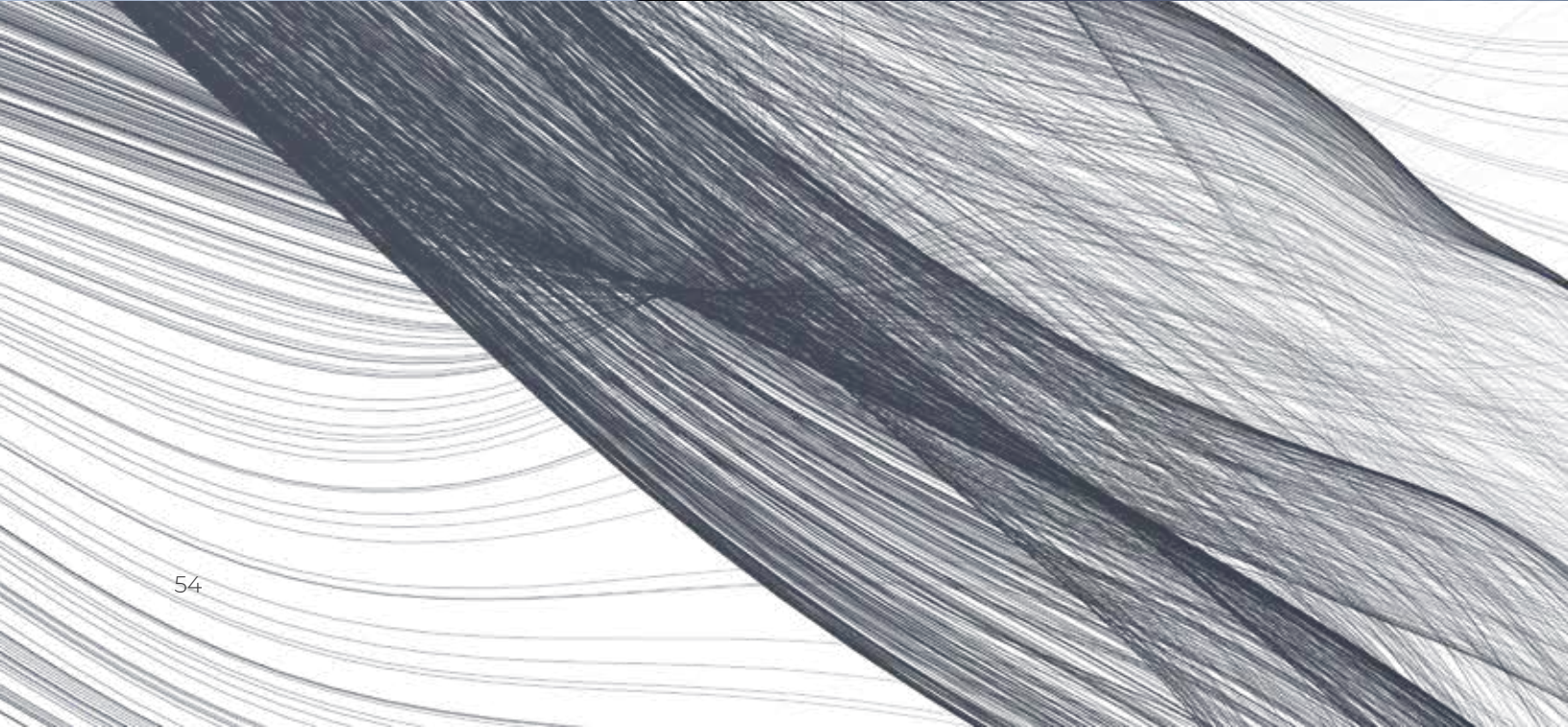
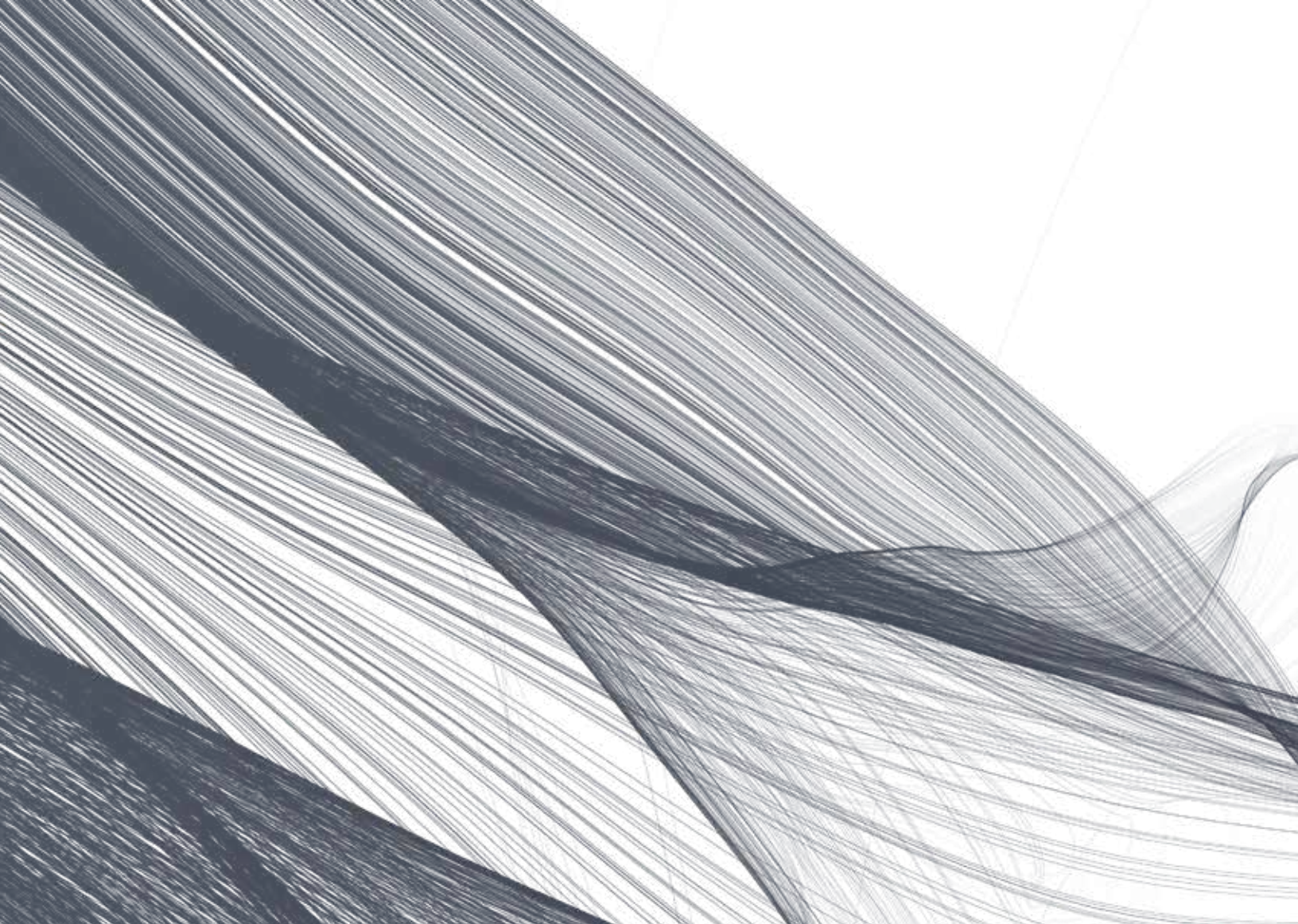


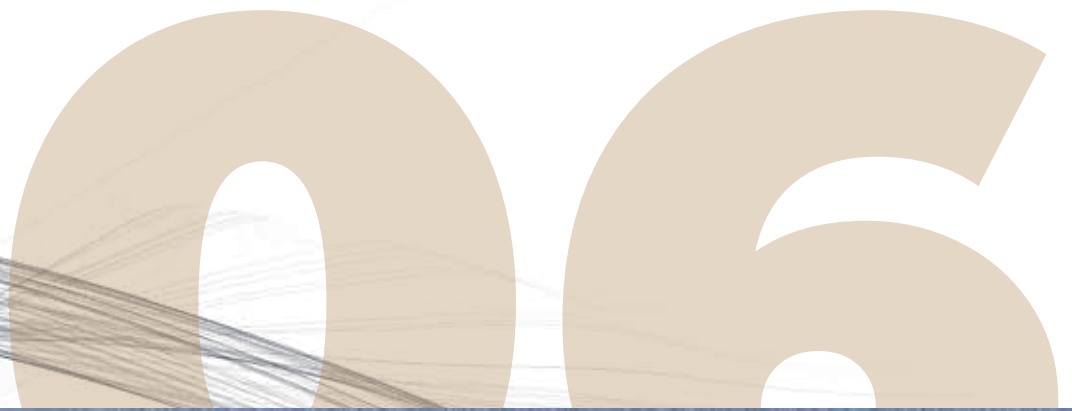
CETESDIRECTO

During 2019, the advertising strategy started in the last semester of 2018 for hiring in cetesdirecto was continued, mainly through various electronic media, including internet, social media, radio and the support of the sales force. Likewise, as every year, the use of Apps and the web was promoted for the contracting and operating cetesdirecto, which allows the public to access the platform in an easy and safe manner. Permanent presence in the Interactive Museum of Economics and KidZania entertainment center was kept, and we participated in various exhibitions in Mexico. It is noteworthy that, during the second semester of 2019, an advertisement campaign was launched throughout the Mexican Republic using local media such as urban buses and radio stations. This campaign was scheduled in four stages to conclude in the first half of 2021. Visits were also made in 2019 to the states of Veracruz, Morelos, Aguascalientes, Guanajuato, Morelia

and Guerrero, with the aim of reinforcing the government's strategy of financial inclusion.

The sum of these actions, together with the behavior of the government securities yield rates, allowed to keep during 2019 the upward behavior shown during 2018, reaching more than 650,000 registered customers, of which more than 407,268 already activated their contract with an investment balance exceeding 19,000 million pesos, exceeding in an outstanding manner the goals established for the year. Similarly, the total amount of debt placed by the Federal Government in 2019 through cetesdirecto reached 3.09% which, compared to the previous year's participation of 2.21%, represented an increase of 40%.



A large, stylized number '06' in a light brown color, positioned in the upper right quadrant of the page. The background features abstract, flowing lines in shades of grey and blue, creating a sense of movement and depth.A solid, dark blue horizontal bar that spans the width of the page, serving as a visual separator between the large number and the main title.

**LEGAL AND FIDUCIARY
OPERATIONS**



CORPORATE AND BUSINESS

Its objective has been to give certainty to legal processes involved in granting credit, financial and risk capital markets, and international and advisory matters. Also, assistance was given to various departments of the institution in preparing and reviewing contracts for national and foreign operations.

During 2019, corporate and business tasks had the following results for the institution:

- Legal advice to the Operadora de Fondos Nafinsa, S.A. de C.V. (Nafinsa Fund Operator) and the investment funds it manages, for the holding of an Ordinary General Meeting of Shareholders and three sessions of the Board of Directors.
- Legal advice and preparation of legal opinion for the institution's participation as an investor in debt instrument issuance.

- Preparation of the Deposit and Pledge Guarantee Contracts to formalize the constitution of guarantees, in credit and discount lines granted by Nafin through the competent authorities.
- Review, update, and execution of International Swaps Dealers Association Master Agreements (ISDAS), entered into with different local and foreign financial institutions, and legal advice for the adherence of Nafin to the so-called US Protocol to continue operating with North American counterparts from January 1, 2020.
- Review and formalization of Cash Pledge Contracts with respect to Derivative Financial Operations, entered into with local financial institutions.
- Instrumentation and legal advice to the cetes-directo distribution channel, including advisory activities and review of documentation related to clients, service providers, and participating at the Technical Committee meetings.
- Review, update and execution of Master Agreements for the Purchase and Sale of Securities and Return, Bank Deposit Contracts for Securities in Administration, Securities Custody Contracts and Securities Loan Contracts.
- Legal advice in the formalization of the documents necessary for Nafin's participation in a syndicated loan to strengthen the financing scheme of a state-owned production company.
- Legal advice for the formalization of the necessary documents for Nafin's participation in the granting of a VAT credit in relation to a project to build a 90MW wind farm in Yucatan.
- Legal advice for the execution of the necessary documents for the expansion of a 155 MW wind farm in Baja California.
- Legal advice for the possible modification of a property management trust and guarantee contract, in order to strengthen a Selective Securities transaction.
- Legal advice for the execution of the necessary documents for the implementation of a scheme through which (three) Electric Provision Contracts are integrated regarding a photovoltaic farm in the state of Durango.
- Legal advice for the analysis of the possible participation of Nafin in the financing of a project consisting of the construction and commissioning of a desalination plant with a capacity of 380,000 m³ per day, in the State of Baja California, which is still under analysis and structuring.
- Legal advice for the modification of two Project Finance credit contracts to extend the availability term.
- Legal advice to record the amendment to the scheme for setin Red Compartida coverage, as well as a review of documentation due to the possible participation of the IDB in the financing.



NACIONAL FINANCIERA

- Legal advice in response to various requests, consultations, and reviews of documentation related to the financing and documentation review of possible operations.
- Advice and review of legal instruments regarding the operations in which Nafin participates as a financial agent of the Federal Government, as well as the financing in which Nafin is accredited by international financing organizations.
- Legal advice in the execution of documents necessary for Nafin's participation in the implementation of the Financing and Risk Transfer Program for Geothermal energy, entered into with the IDB, by directly coordinating the participation of an external legal adviser to define the formalization strategy of the aforementioned program.
- Legal advice regarding Nafin's participation in the Forest Investment Program and in the Renewable Energies and Energy Efficiency Program entered into with the German bank KfW, which will be: (i) FIRA's refinancing of financial intermediaries in benefit of eligible community forestry companies, and (ii) refinancing loans granted by financial intermediaries for individual investments in solar panels and/or small or medium-sized projects that aim the efficient use of energy, as well as fund financing granted by Nafin in the first level program for solar projects.
- Legal advice to extend the line of credit in an additional amount of 48 million euros, regarding the participation of Nafin in the implementation of the Municipal Environmental Protection Program (Proamu, in Spanish), which aims to carry out the design, construction, and operation of a desalination plant in Playas de Rosarito, Baja California.
- Legal advice in the execution of legal documents related to simple credits in the Program of Institutional Market of Corporate Alternative Debt (MIDAS) modality.
- Legal advice for the execution documents necessary to implement first level credit modifications and waivers, such as project financing, corporate credit, and VAT financing, among others.



- Legal advice to the Entrepreneurial Capital Trust, including the review of various amending agreements, and response to various inquiries in order to concertize trust's investment and disinvestment.
- Legal advice in the preparation and review of collaboration agreements entered into Nafin and various entities, including municipalities, states, and companies, so as to join efforts to promote industrial and regional development, thus granting access to financing within the power of the institution.

GOVERNMENTAL REGULATIONS

I. Legal Procurement

The institution fully complied with the regulations that apply to it as a National Credit Society, due to the support and advice given in the preparation and review of legal instruments requested by different areas of Nafin; thus, providing them support for meeting their objectives, and its substantive activities.

Pursuant to the foregoing, in 2019 a total of 367 issues were addressed as follows:

- 162 legal instruments were prepared, out of which 78 were contracts and 84 agreements.
- 125 bond policies were reviewed and validated.
- 29 sessions of the Call Reviewing Subcommittee for contracting procedures were attended through the public bidding and invitation processes for at least three individuals.
- Eleven ordinary sessions of the institution's Procurement, Leasing, and Services Committee (CAAS, in Spanish) were attended.
- Five sessions of the Committee on Personal Property (COBIM, in Spanish) in relation to the General Law of National Assets were attended.
- Nine sessions of the SVD Trust Working Group were attended.
- Review and issuance of the legal opinion of 17 matters related to contracts and/or documents sent for the recording of services provided by foreign suppliers outside the national territory.
- Nine requests were attended to manage the registration procedures before two administrative authorities (IMPI and the National Institute of Copyright).

II. Liaison to the Superior Federal Audit Office (ASF)

Regarding the functions that the Government Regulatory Directorate has as Liaison to the ASF: all information requirements of the 10 audits carried out on the institution corresponding to the 2018 Public Account were met in a timely manner.

III. Federal Law on Transparency and Access to Public Information (LFTAIP) and the General Law on Transparency and Access to Public Information (LGTAIP)

Regarding transparency and access to public information, the Transparency Unit (UT, in Spanish) carried out and coordinated the following actions:

Publication of Mandatory Information. In the period from January to December 2019, the Transparency Unit worked in coordination with the administrative areas of Nafin, so that they updated, published



and/or deleted their information, as well as for the preparation and approval of the public versions of various documents that must be published in the Transparency Obligation Sites System, resulting in timely and accurate updating of the information, including that corresponding to the functions of the UT and the Directorate of Government Regulations, in accordance with the LGTAIP, the LFTAIP, and the General and Federal Technical Guidelines on the matter. Also, during this period, the National Institute for Transparency, Information Access, and Personal Data Protection (INAI, in Spanish) carried out the 2019 Binding Verification process of the fulfillment of the obligations established in the LGTAIP and the LFTAIP. After concluding the INAI review stages, the Final Verification Opinion was issued to Nafin and the Trusts it manages, obtaining a rating of ONE HUNDRED (100) percentage points in the Global Compliance Index on Transparency Sites.

Reserved Records Index. During 2019, the UT requested the administrative areas to update the Reserved Files Index (IER, in Spanish) for the second half of 2018 and the first half of 2019, in accordance with applicable regulations. As of the first semester of 2019, Nafin had 13 files registered in the IER. The update, corresponding to the second semester of 2019, will be carried out in accordance with Twelve and Three of the “General guidelines regarding the classification and declassification of information, as well as for the preparation of public versions”.

Transparency National Platform (Infomex). From January to December 2019, 312 information requests were received in the Infomex System of Nacional Financiera, SNC, IBD. As of December 31, 2019, there were 11 requests in process, and 301 information requests that were addressed in a timely manner.

LEGAL AND COLLECTING DISPUTES AND CREDIT DEPARTMENT

The Litigation and Credit Law area continues endorsing its commitment to design flexible and modern contracting schemes for packaged products, actively participating in the business process through the timely provision of legal formalization services.

The most relevant achievements obtained during 2019 are the following:

Regarding **bank formalization services:**

- Three hundred and fifty one (351) requests were received and attended to, of which 210 correspond to contracts and agreements for banking operations (91 for production chains, 49 for operations with financial intermediaries, and 70 for guarantees) and 141 correspond to opinions on the legal existence of legal entities and powers summary, as well as queries answered by this area, reaching a response rate of 99.8%.
- Likewise, it is worth mentioning our participation in the design and elaboration of models of the Agreement for the Contracting of Automatic and/or Selective Guarantees by electronic means (19 incorporated financial intermediaries).

Talking about **litigation services:**

- Credit recovery of 15.9 million pesos was obtained as a result of the legal actions taken and the conclusion of 11 lawsuits promoted thereof. Additionally, 6.13 million pesos were recovered as a result of the supervision of judicial actions for collection of various trusts.
- 66 lawsuits filed against Nafin of a non-labor nature were closed with favorable decisions for the institution; thus, acquitting benefits for 8.67 million pesos and 5.04 million dollars. Regarding labor lawsuits: 10 were concluded in favor of the institution, acquitting benefits for 8.8 million pesos, as well as two not favorable decisions for 4 million pesos.
- At year-end, a litigation portfolio of 625 lawsuits in which Nafin is a party is managed. Of these, 231 cases have been assigned for the recovery of credit with a value of 795.07 million pesos, 184 correspond to labor claims, 195 to non-labor claims and 15 to various lawsuits (criminal, administrative, etcetera).
- Likewise, it is important to mention that during this year there was a timely response of 222 requirements of authorities, which led to 100% service compliance. Therefore, no fines were imposed due to lack of attention.

- Within the internal management legal services, 244 requests for the granting and revocation of powers, notarization of appointments and collation of documents, as well as 258 requests related to the drew up of mutuals with mortgage securities, expansion, replacement of securities or redocumentation and lien cancellations, were attended.

FIDUCIARY OPERATION

In 2019, Nacional Financiera became the first trustee in the country, managing assets worth more than 1.7 trillion pesos corresponding to 411 fiduciary businesses. This amount represents more than 18% of the total trust assets nationwide and approximately 72% of the total managed by the development bank. Of the total managed assets, 611,157 million pesos, equivalent to 36%, corresponds to liquid resources. Of this amount, 160,735 million pesos (26%) is invested in the Money Desk and 5,860 million pesos (1%) in the Nafinsa Fund Operator, which means a 12% increase in the liquid investment of fiduciary businesses in the institution, compared to the previous year. Of the remaining resources, 187,433 million pesos (31%) are deposited in the Treasury of the Federation and 257,129 million pesos (42%) are invested with other financial intermediaries.

Revenue from fiduciary services in 2019 amounted to 194.8 million pesos, a figure that represents 4% more than budgeted.

During fiscal year 2019, the Trusteeship Directorate continued with businesses refinement, carrying out the extinction of trusts which purposes were fulfilled, with which it was possible to optimize the inventory with respect to its contribution to institutional income, by improving 3.6% the average fiduciary fee charged per managed business.

Likewise, in 2019 Nacional Financiera concluded the functional design of the Integrated Trust Management System.



07



OPERATIONS' SUPPORT

QUALITY MANAGEMENT AND ORGANIZATIONAL CULTURE

In order to maintain its dynamic growth and qualitative change, Nafin maintains its strategy of continuous improvement in its Quality Management System (SGC, in Spanish), in the development of its human capital, in the strengthening of risk management and in the incorporation into its technological platform of the adequate systems for the efficient operation of its programs.

I. Quality Management System (SGC)

Nacional Financiera implemented this system during the first days of 2001, and since then has supported the institutional commitment to contribute to economic development oriented to national business productivity, under a scheme focused on risk prevention, the use of opportunities, continuous improvement and customer satisfaction. The SGC supports the purpose and strategic direction of Nafin, aligning the institutional objectives as quality objectives, which results in a positive effect in meeting external and internal challenges. Throughout these 18 years, Nafin has maintained and strengthened the SGC, certifying year after year its processes and achieving successful migration to ISO 9001:2015 in November 2017. Moreover, the new documentation standard facilitated and clarified the transition, incorporating in a natural way the corrections and new elements of the Standard. In 2019, the ISO 9001: 2015 certification was obtained for the period from November 6, 2019, to November 5, 2022, with annual reviews to validate the re-certification and maintenance of the certificate. The Certificate was obtained through an external quality audit, by a certifying house, which endorsed compliance with the ISO 9001:2015 Standard in the institution's processes.

II. Quality Operating Committees (COCs)

One of the most important elements of the management of the SGC is the participation of the staff of the institution in the self-management of the quality of their processes through the Quality Operational Committees (COCs, in Spanish), which meet at least once a quarter. At the end of December 2019, there was a total of 41 COCs.



HUMAN CAPITAL DEVELOPMENT

I. Detection of Talent and Gender Equity

The institution has a competency-based human capital management model that encourages constant updating of staff to develop their potential. The execution of this model allowed, in the period January-December 2019, 42% coverage of vacancies with internal personnel; that is, with staff that has been professionally developed within the institution, thus, reducing recruitment costs and optimizing investment. Also, vacant positions were covered in accordance with gender-equity fostering public policies, which translated into 42% women promotions during the year.

Also, Nacional Financiera has a program to promote the development of talented young people, through professional practical experience and social service. As a result, 25 people for ongoing positions were hired, which represent 10% of those hired from January to December 2019.

With the firm purpose of strengthening talent detection, in December 2019 the information update campaign was carried out at the Talent Pool (an online service), which allows identifying internal and external personnel with the skills required for performance in a certain position, as well as candidates for the vacancies that are generated. Additionally, the Talent Pool offers a methodology

that aligns the competencies of the personnel with the needs of the institution while establishing individual development plans and mapping people as key personnel and talent replacement grids.

During 2019, we worked jointly and actively with the SHCP and the National Institute of Women in the definition and implementation of strategies and action plans focused on mainstreaming the gender perspective within the institution. Among such actions, the following are important to mention: the panel “Pensemos con igualdad: inclusión e innovación” [“Let’s think Equality: Inclusion and Innovation”]; the workshop “Políticas incluyentes par unas finanzas públicas con igualdad” [“Inclusive Policies for Equal Public Finances”] imparted by UN Women; the Primera Jornada de Trabajo de la Red de Enlaces de Género [First Working Day of the Gender Link Network], from which five large agreements resulted and which have been thoroughly complied (update of the Sexual Harassment Counselors Network and update of the Zero Tolerance to Harassment statement by the head unit); participation in the working day “Costos institucionales del hostigamiento sexual y acoso sexual, y comunicación incluyente” [“Inclusive Communication and Institutional Costs of Sexual Harassment”]; working groups to update the Protocol for the Prevention, Attention and Sanction of Sexual Harassment in the Federal Public Administration (APF, in Spanish)”, and the seminar “Empoderamiento e inclusión financiera de las mujeres” [“Women Empowerment and Financial Inclusion”]. Likewise, work has been carried out in compliance with the dictates of the Secretariat of Public Service (SFP, in Spanish) in the definition and implementation of the Annual Work Plan for Ethics and Conflict Prevention Committee of Nacional Financiera, SNC, which has been followed up to date.



II. Priority Training Programs

During 2019, 275 courses were taught, focusing in technical and specialized needs of the staff, highlighting training in soft skills as well as updating on regulatory issues and preparing for certifications.

The Business English program was carried out during the second semester (from September 2 to November 5), with the participation of 145 people (77 women and 68 men).

From September 4 to November 27, the Executive Improvement Diploma in Financial Analysis and Planning was held, whose objective was to develop and reinforce skills and knowledge. It had the participation of 30 people.



INTERNAL COMPTROLLER

I. Internal Control

Internal Control System

The heads of the Administrative Units appointed and/or updated the Public Servants responsible for attending in a timely manner the Routine Control Agendas of the processes under their responsibility, which allow the staff to ensure the proper performance of their activities, identifying, controlling and mitigating the risks inherent to its functions.

Compliance with the 2019 Work Program

16 verifications were carried out throughout the fiscal year to evaluate the effectiveness of the Internal Control verifying its effectiveness by comparing the documentary and electronic evidence generated from the execution of each process. The Internal Comptroller's Office informed the Audit Committee of the results of the visits carried out during the year.

Update of the Objectives and Guidelines of the Institutional Model of Internal Control

On Monday, October 28, 2019, the Nafin's Audit Committee became aware of the updating of the Objectives and Guidelines of the Internal Control Institutional Model 2019 (LIMICI, in Spanish), and recommended to the administration to submit it to the approval of the Board of Directors. As a result, during its session on October 31 of the same year, the Board of Directors approved the update for its implementation.

With the aforementioned update it is intended that the LIMICI become a regulatory instrument of mandatory observance within Nafin that allows for a safe and efficient operation in the daily work; thereby, strengthening the achievement of the institution's objectives.

Updated Record of Relevant Institutional Manuals

In response to Article 156, section I, of the General Provisions Applicable to Credit Institutions (CUB, in Spanish), there is a registry of the status of the substantive manuals in the operation of the institution,



which is updated by collaborating with the relevant areas and reported quarterly to the Audit Committee. At the end of fiscal year 2019, there were 93 operational manuals, of which 90 are updated and three are in the process of being updated.

Performance of Activities Related to Article 164 of the CUB

During the meeting of the Board of Directors held on October 31, the General Director of Nafin, through the Internal Comptroller's Office, informed the collegiate body of the Annual Report on the performance of the activities referred to in Article 164 of the CUB, as well as the operation of the Internal Control System as a whole.

The aforementioned report includes the contribution of the heads of the Administrative Units regarding the relevant results achieved with the implementation of the best practices in Internal Control matters, such as:

- Updating of the Business Continuity Plan, incorporating the new roles and responsibilities of the Internal Business Continuity Unit.
- Updating of Business Continuity Plans by critical process.
- Enabling the connection between the equipment of the alternate site with those of the primary center.
- Including a place in the alternate site for the process associated with the Transfrontier Transfers Database (BDTT, in Spanish).
- Updating of the LIMICIs, which govern the institutional operation regarding Internal Control.
- Recognizing the role of the Internal Comptroller's Office in activities related to the design, establishment and updating of actions and controls that promote the correct operation of technological infrastructure in accordance with security measures, aided by the Chief Information Security Officer (CISO).
- Paying attention to the recommendations of the Audit Committee and supervisory bodies to strengthen the Internal Control of institutional processes.

Report on the Status of the Internal Control System

During January 2019, the Annual Report on the Status of the Internal Control System in Nafin was presented to the Director General with information updated to the end of 2018. Said report was presented to the Audit Committee and the Board of Directors during the meetings held on January 25 and March 7, 2019, respectively, and it was duly signed to the Secretariat of Public Service.

The Annual Report on the Status of the Internal Control System shows the most relevant aspects and the actions carried out by Nacional Financiera in implementing, updating, strengthening, and monitoring the institutional Internal Control System.

Update and Implementation of Control Tools

As of the date of this report, the processes were permanently monitored by control tools under the supervision of the heads of the Administrative Units, modifying, incorporating, or eliminating questions with the purpose of:

- Verifying the fulfillment of the activities that make up the critical processes and the effectiveness of the registered controls.
- Establishing or updating control mechanisms according to the needs of the processes.
- Jointly implementing internal controls and inspection points, to avoid the materialization of possible risks.

Activation of Incidents in Routine Control Agendas

During fiscal year 2019, 167 Internal Control incidents were detected by the activation of alerts. In general terms, they were minor and of an operational nature; thus, they did not have a significant impact; nevertheless, they were recorded in the Internal Control Administration System (SACI, in Spanish).

Regulatory Reports and Reports to the Authorities

Amongst the activities of the Internal Comptroller's Office is the monitoring of timely compliance with the regulations, information monitoring, and the preparation and delivery to the authorities of various reports requested to the institution.

Therefore, the Internal Comptroller's Office requested the administrative units to start updating the inventory of reports and information requirements, which is housed in SACI and, in this way, promoting timely institutional compliance with the 291 regulatory reports requested to Nafin by SHCP, CNBV, and Banxico, among other organizations.

Timely Attention of Routine Control Agendas

In terms of what is set in number 8, Subsection C, Section V, of LIMICI, the Internal Comptroller's Office periodically informs the heads of the administrative units on the attention provided to the Routine Control Agendas by the personnel assigned to the corresponding administrative units.

Supervision of compliance with the Provisions on Investment Services

The report on the supervision of compliance with the General Provisions applicable to financial entities and other persons providing Investment Services, corresponding to the first semester of 2019, was presented to the Auditing Committee and the Board of Directors during the sixth ordinary meeting and the third ordinary meeting held in 2019, respectively.

The Internal Comptroller's Office, responsible for monitoring compliance with the Provisions in question, provided the Compliance Report and certification of the Board's agreement to the National Banking and Securities Commission, in a timely manner.

Interbank Electronic Payment System - Regulatory Manager

In compliance with the provisions of Circular Letter 14/2017 on the rules of the Interbank Electronic Payments System (SPEI) and its amendments (particularly to what is stated in rule 73 "Functions of the person in charge of regulatory compliance of SPEI", section I) in July, the Internal Comptroller's Office, in its capacity as Head of Regulatory Compliance for SPEI, presented to Banxico and the Nafin Audit Committee the Annual Report that contains the findings, irregularities and non-compliances with the regulations applicable to SPEI, as well as the actions taken to correct them and the degree of progress and efficiency of such actions.



As of September 9, the institution returned to normal SPEI operation in a different application to the contingency procedure called Alternate Operation Client SPEI (COA-SPEI), complying with document D48/238-2019 sent by Banxico on August 30.

In compliance with Rule 73, section II, of the aforementioned circular, incidents related to Installment Confirmations (CDAs, in Spanish) and disconnections that exceeded 30 minutes were presented to the Audit Committee.

Interbank Electronic Payment System - Information Security Officer SPEI

In accordance with the provisions of Circular Letter No. 14/2017 referred to above -in particular to what is stated in rule 59^a bis. "SPEI Information Security Officer", section V-, the SPEI Information Security Officer presented to the Audit Committee and the Institution's Comprehensive Risk Management Committee, the disconnection events that affected SPEI's operation and whose duration exceeded 30 minutes, indicating the actions taken for its attention as well as the impact on the operation of the institution.

Administration and Control of Unidentified Income in Banks

Once the operational areas identify a deposit in the aforementioned circumstances, they gather the supporting evidence that allows the Internal Comptroller's Office to validate the information, before proceeding to the final allocation of the resources.

In the reporting period, 895 operations were validated for an amount of 622.38 million pesos, of which 876 operations, for an amount of 609.34 million pesos, and one operation for 3,712.17 US dollars, correspond to the Fiduciary Directorate. The rest were originated in different operating areas.

Collection and Payment of Interests in National Currency

The Internal Comptroller's Office is responsible for supervising compliance with the process, by validating the document drawn up for this purpose, as well as the documentary support for each transaction. During fiscal year 2019, four transactions for an amount of 74,998.47 pesos attributable to Nafin were validated.

II. Anti-Money Laundering and Countering the Financing of Terrorism

Compliance Manual

According to what is set in the General Provisions referred to in article 115 of the Law on Credit Institutions published in March 2018, the Anti-Money Laundering and Countering the Financing of Terrorism department prepared a new Compliance Manual. The manual was presented to the Control and Communications Committee (CCC, in Spanish) during the first extraordinary meeting held on July 18, 2019. It was sent to the CNBV on July 22, and it was presented to the Audit Committee during the meeting held on July 26.

Likewise, Customer Identification and Knowledge Formats for Legal Entities and Trusts were redesigned according to the needs of the institution and compliance with current regulations. As a result of the foregoing, various meetings were held with the business areas to train them in format completion and filling so as to make the process of prospective client's identification more efficient.

Preventive processes of illicit operations

At the requests of the business areas, during fiscal year 2019, due diligence processes were carried out to determine risk rating in preventing operations with proceeds of unlawful activities.

807 request letters were attended to determine the risk level from 11 area directorates (Market Promotion, Productive Chains, Alternate Channels, Trust, Corporate Financing, Financial Intermediaries and Microloan, Sustainable Projects, Human Resources and Quality, Market Administration and Treasury, Financial Markets, and Network Coordination). There, not only the corresponding risk rating is issued but, at the same time, it is documented leaving evidence of each client and its shareholders, legal representatives, and persons authorized to carry out transactions.

It is worth mentioning that the preventive processes entail reviewing possible records in the bases of the

due diligence service provider contracted, for each person whose name is entered in the corresponding FICC, FVPPE and FICC-FISO form. 146 Honesty Forms of newly recruited staff were received from Human Resources and Quality area to prove honorability of hire proposals.

Likewise, the authority sent black lists to the Compliance Officer for monitoring and they were uploaded to the Relevant and Unusual Operations System (SORI, in Spanish).

Technological Developments in the Monitoring System

Regarding technological developments for the SORI, in September we participated in the Pre-Committee for Systems Planning and Evaluation responsible for integrating new projects during 2020, which included the Trusts screen, a risk-focused methodology and monitoring of concentration accounts.

Information Exchange between Banks and the Authorities on the Prevention of Illicit Transactions

In order to comply with the 62 Quáter of the General Provisions referred to in article 115 of the Law on Credit Institutions, regarding guidelines for information exchange between credit institutions and competent authorities, Banxico made available to banking a technological development called the Transfrontier Transfers Database (BDTT, in Spanish).

FATCA Compliance Process Implementation

The institution complied with the provisions of the Annexes 25 and 25 bis of the Annual Temporary Tax Regulations, referring to the obligation of the banking entity to perform the corresponding actions of the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS).

Verification of Identification Files and Knowledge of Clients with High Risk Rating

In compliance with the Verification of Identification Files and Knowledge of Clients with High Risk Rating, two visits were made during the year. The results were presented to the CCC, complying with the related internal policy.

CCC Chairman and Secretary Office

During 2019, the CCC held 12 ordinary meetings and one extraordinary, thus complying with the Provisions.

Upon sending the report to CNBV, members updating, and modification actions were carried out by requesting area directors to provide all necessary information to obtain data required by the standard.

Nafin Branch in Grand Cayman, Cayman Islands

During September, the audit carried out by the Cayman Islands Monetary Authority (CIMA) was attended, which included sending information on policies and procedures regarding Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT).

Moreover, CIMA requirements made through the Regulatory Enhanced Electronic Forms Submission (REEFS) site were attended.

Attention to the Requirements of Authorities via the CNBV

During 2019, 157 judicial requests published on the CNBV's SITI_AA site were met, all delivered in a timely manner.

Observance of Foreign Banks Due Compliance Requirements

In order to maintain business lines with foreign counterparties, 62 requests for information from national and foreign banks were answered. Such information requests were on Wolfsberg Questionnaire formats, Patriot Act Certifications, and requests for general information from Nafin; namely, Anti-Money Laundering questionnaires, integration of the Board of Directors, identification data of the main executives of the institution and Comprehensive Due Diligence formats, among others.

Training Program on Anti-Money Laundering and Countering the Financing of Terrorism

In compliance with the General Provisions referred to in article 115 of the Law on Credit Institutions, the 2019 Training Program on Anti-Money Laundering and Countering the Financing of Terrorism was carried out, which

included training for staff of the institution as a first step. The results and the list of staff who did not take the training and/or exam were presented to the CCC, so the Committee instructed the Compliance Officer to call on the staff to take it. This was done in written, with a copy to their direct boss, and the letter was included in the Human Resources staff file. Therefore, 98% of the Institution's staff successfully completed the training program.

INTERNAL AUDITING

The Internal Audit Directorate (DAI, in Spanish) elaborated and attended its Annual Work Program 2019, which focused in audits of relevant activities of the institution. 18 audits were carried out as follows:

No. of audits	Topic	Regulatory Institution
3	The four stages of the Credit Process. First and second-tier portfolios and Securities Program	CNBV
1	Portfolio Rating	CNBV
1	Global Code of Conduct in conducting foreign exchange transactions	Banco de México
2	Capital and Derivatives Market	CNBV
1	Risk management	CNBV
4	IT systems	CNBV
1	SPEI. New requirements	Banco de México
1	Fiduciary process. Management and custody of cash assets	CNBV
4	Follow-up	CNBV

I. Audit Committee

DAI provided support to the Audit Committee on its actions, in the logistics of the sessions, in obtaining information for their development and in monitoring of agreements, until July 2019 (sixth ordinary meeting). Later, these functions were transferred to the Secretary of the Board of Directors.



II. Participation as Normative Advisers during the Meetings of the Decision-making Bodies (Committees)

In compliance with the regulatory provisions, we participated in the sessions held by the Comprehensive Risk Management Committee and the Control and Communications Committee, as well as in the Executive Credit Committee of the Board of Directors, and until May 2019 in the Internal Committee of Credit, in the Credit Committee.

III. Monthly Review of Variations in the Financial Statements of the institution

With the purpose of evaluating the reasonableness of the figures of the Balance Sheet and of the Income Statement, the items showing the main variations are identified on a monthly basis by making the comparison of balances of the formalized financial information of the previous month against the preliminary figures registered in the Financial Information System by determining increases and decreases of the balances and by analyzing the origin of the variations.



COMPUTING

Continuous improvement in the Operation

The institution is aligned to the ICT and Information Security Matters processes set in the Management Manual of General Application to Information Technologies and Information Security (MAAGTICSI, in Spanish). MAAGTICSI processes are grouped into three main groups: Governance, Organization and Delivery. Each group includes the following processes:

Governance

- Strategic Planning Process (PE).
- Budget and Procurement Management Process (APCT).

Organization

- Configuration Management Process (ACNF).
- Information Security Management Process (ASI).

Delivery

- Project Management Process (ADP).
- Supplier Management Process (APRO).
- Operation Management Process (AOP).
- Operational Process of Information Security Controls and ERISC (OPEC).

MAAGTICSI

At the end of December 2019, the IT Department consistently executed the MAAGTICSI processes directly related to the Strategic Technology Plan, obtaining the following results in terms of its indicators:

Strategic Technology Plan

I. Strategic Planning (PE)

Indicator. Percentage of compliance in the execution of the projects that make up the Executive Portfolio of ICT Projects: 99.00%.

During 2019, 26 business projects have been implemented, of which eight were implemented through the contracting and administration of external suppliers, in accordance with current regulations; and 16 through internal developments that allowed generating significant savings for Nafin, having the benefit of not depending on a provider. It is important to mention that this strategy keeps knowledge and experience in the institution and reduces response times to meet business needs, thus supporting the professional development of staff in these projects. Moreover, two projects were jointly implemented, through internal developments and with an external provider.

II. Project Management (ADP)

Indicator. Percentage of compliance in the execution of the projects that make up the Operative Portfolio of ICT Projects: 100%.

The number of projects in the ICT Project Operational Portfolio, as well as the number of completed projects, is one.

The progress of the rest of the indicators of the MAAGTICSI of the Federal Public Administration is presented below.

III. Budget and Procurement Management (APCT)

Indicator. Percentage of effectiveness in preparing Feasibility Studies: 88.89%.

The number of favorable feasibility studies is 16 and the number of feasibility studies presented to the Digital Government Unit (UGD, in Spanish) is 18.

IV. Service Management (ADS)

Indicator. Keeping service information updated: 100%.

The number of reviews carried out, as well as number of evaluations for the period is four.

V. Configuration Management (ACNF)

Indicator. Keeping the configuration repository updated: 100%.

The number of reviews carried out to the configuration repository, as well as number of schedules reviews is four.

VI. Supplier Management (APRO)

Indicator. Compliance with the process: 100%.

The number of scheduled and executed progress and completion reviews is 34.

VII. Operation Management (AOP)

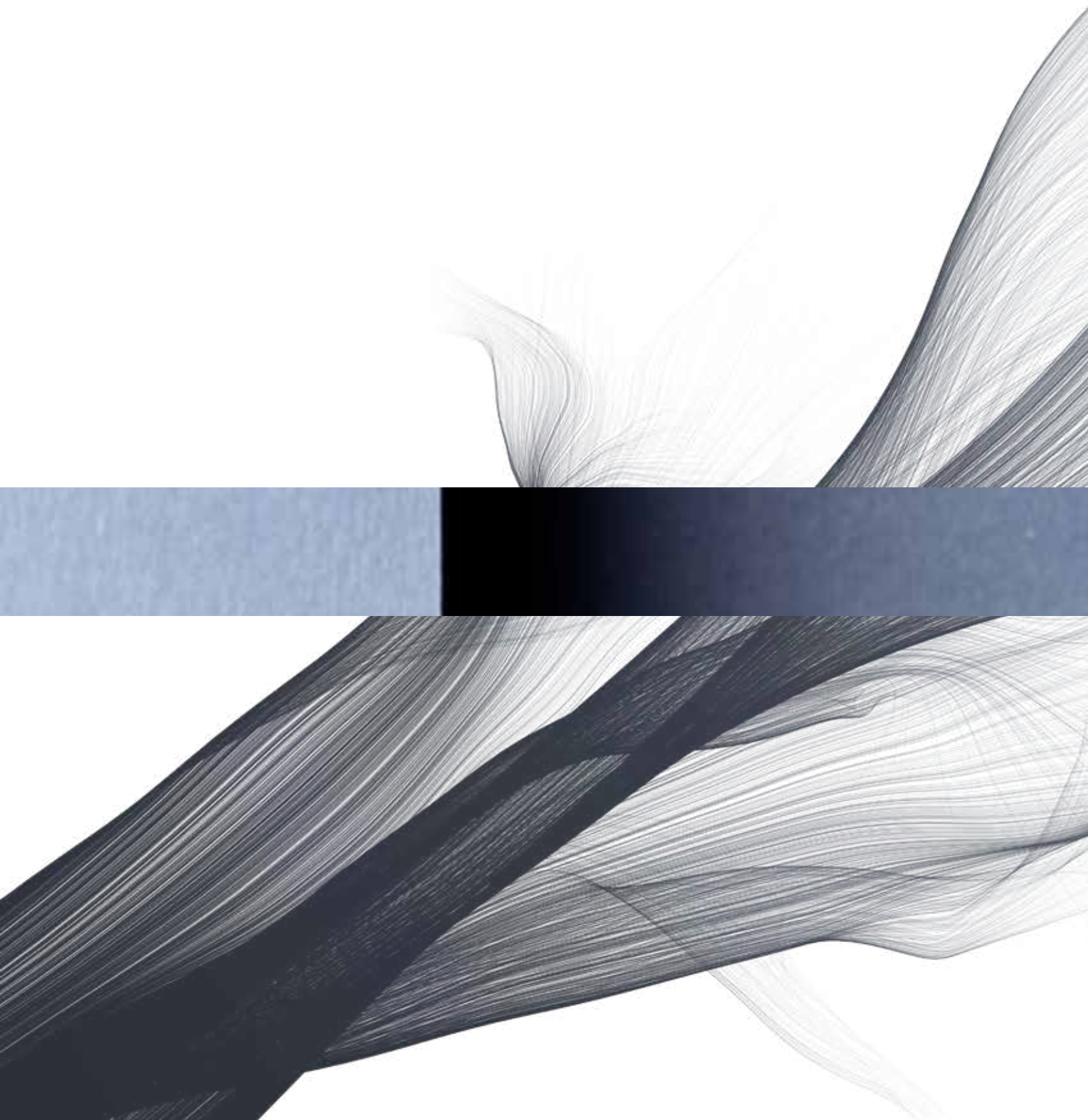
Indicator. Incidents in the operating environment: 98.80%.

The number of resolved incidents in the operation is 1,983, and the number of incidents that occurred in the operating environment is 2,007.

VIII. Operational Process of Information Security Controls and ERISC (OPEC)

Indicator. Implemented controls: 100%.

The number of controls implemented is one, and the number of controls implemented in operation according to its definition is also one.





FINANCIAL RESULTS

Despite the uncertain context and diminishing economic activity, the institution got a net result of (2,272) million pesos, equivalent to a (6.1) % nominal return on capital during 2019. This way, by the end of the year the equity capital amounted to a total of 37,926 million pesos, representing 6.7% nominal growth against the total revenue of the previous year. It is worth mentioning that in this year the Federal Government allocated 7,697 million pesos to the institution, and without it the net profit would have been 5,425 million pesos and 14.3% return on capital.

In addition, the bank's financial situation showed solid indicators, including the following:

Indicator	Dic. 2018	Dic. 2019
Overdue portfolio / private sector portfolio	0.31%	0.34%
Reserves / overdue portfolio	534.6%	554.05%
Financing granted to the MSMEs / Financing to the Private Sector	72.4%	71.0%
Financial penetration (Private Sector Portfolio / GDP) 1/	1.84%	1.70%
Financial penetration (Private Sector Portfolio and Capital Contr. / GDP) 1/	2.16%	2.06%

1/ Mexico's GDP on December 2019 is estimated in base of 2019 GDP published by the INEGI.

Given the balance obtained from the loan portfolio and the guarantees with the private sector, it is estimated that as of December 2019, the Financial Inclusion Index reached 1.70% (higher than 0.00% of December 2018).

This Index measures the credit balance driven directly by Nafin to the private sector as a percentage of the GDP.

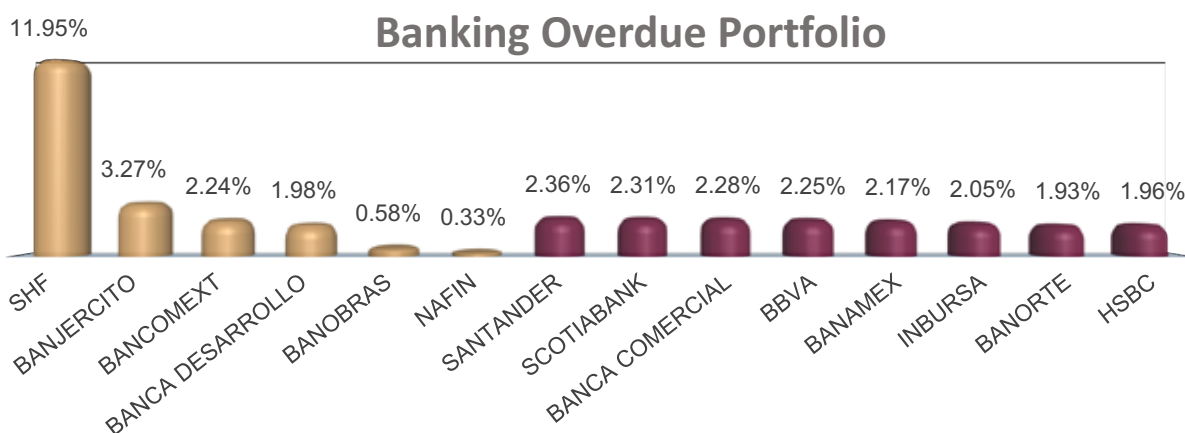
Likewise, taking into account the balance above, plus the stand-by credits, the balance of the portfolio through FND and the capital injections from the Investment Funds, the Financial Inclusion Index declined from 2.06% in December 2018 to 0.00% in December 2019.

EVOLUTION RISK OVERDUE PORTFOLIO

At the end of December 2019, the credit portfolio registered in the balance sheet was 225,950 million pesos. At the end of 2019, the risk overdue loan portfolio was at 731 million pesos, primarily concentrated in Direct Credit for Companies Programs' portfolios 488 million pesos (67%); Non-banking Sofom Financial Brokers 228 million pesos (31%), and former employees 15 million pesos (2%).

COMPARISON TO OTHER BANKS

The Overdue Loan Index (ICV, in Spanish) of 0.32% reached in December 2019 places Nafin below the Army, Air Force and Navy National Bank, Bancomext, and the National Bank of Public Works and Services. According to the latest figures published by the CNBV, the Federal Mortgage Society presents the highest ICV of development banking with 11.95% as of June 2019.



On the other hand, the institution compares favorably against 2.24% of commercial banks at the end of November 2019, as well as with the main commercial banks: Scotiabank, Santander, BBVA, Banamex, Inbursa, Banorte and HSBC.

The portfolios of banks and Modality "A", Public Sector Financial Intermediaries and Decentralized Entities, which make up 47% of the total portfolio at risk, do not have any overdue loan portfolio.

In recent years, past due loan levels have not increased and remain below 0.5% in accordance with the continuity of the implemented planning strategies, among which the following stand out:

- Timely issuance of monitoring reports and monitoring of the first and second floor portfolio, with the result of the visits made and including early alerts that favor decision making.
- Immediate and direct extra judicial collection, paying attention to payment proposals or credit restructuring, where appropriate, for authorization of the authorized bodies.
- Use of preventive reserves and credit penalties, in accordance with the institutional regulations authorized by the Board of Directors.
- Training for the personnel responsible for monitoring, follow-up, and recovery, in order to increase their knowledge and skills.
- Maintenance and improvement of the systems used for monitoring, follow-up, and recovery of the assigned portfolio.

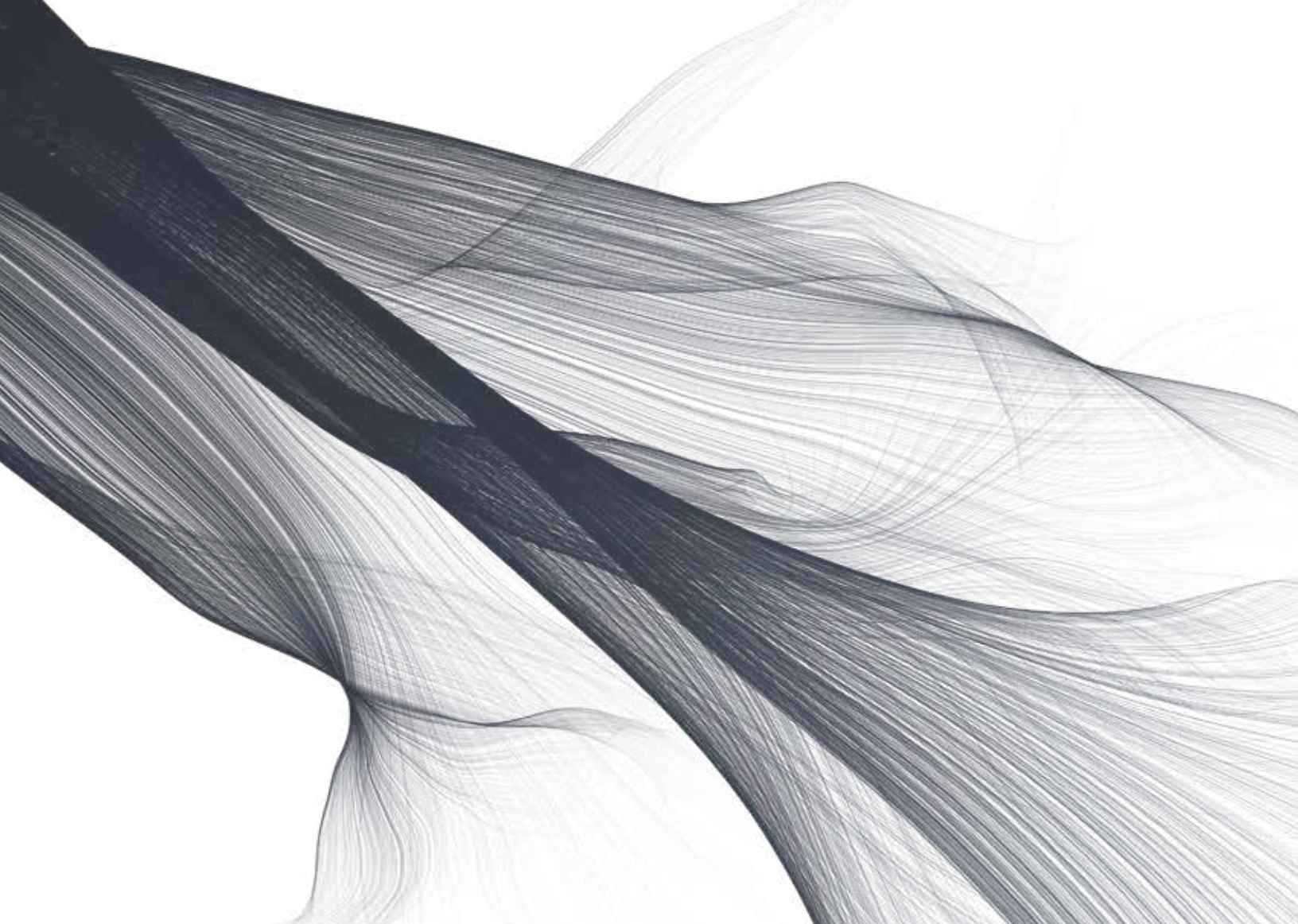
In accordance with the above, Nafin has a team of executives specialized in the monitoring and follow-up of credit portfolio and guarantees, as well as in extrajudicial collection and institutional tools for portfolio monitoring and control, which allows monitoring the Financial Intermediaries and accredited individuals' compliance with regulations.

OVERALL BALANCE

As of December 2019, the Institution's assets had reached a total of 567,786 million pesos, financed with 529,860 million pesos liabilities which, in turn, consist of 200,418 million pesos from report creditors, 237,601 million pesos corresponding to internal debt, and 71,823 million pesos corresponding to external debt and other liabilities.

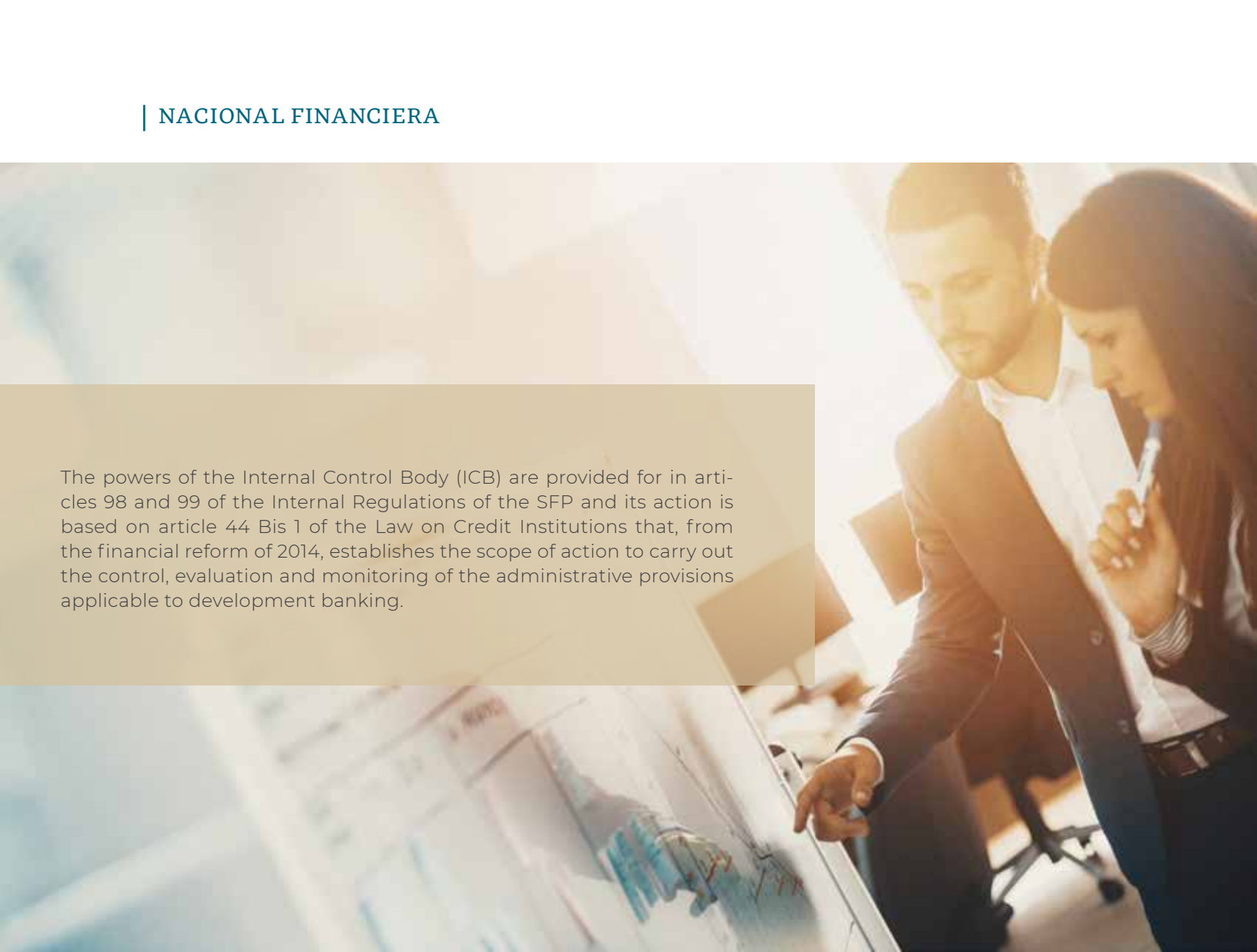
In addition, Nafin has a Financial Agent balance of 368,085 million pesos, an amount representing an increase of (12,261) million pesos during the year (3.2%). The balance for stand-by guarantees reached 85,463 million pesos, with a 6.9% growth rate when compared to the previous year, due to the dynamism and acceptance of Nafin's Guarantees Program.

An analysis of Nacional Financiera's financial statements for the 2019 period is provided in Annex B: "Report on Consolidated Financial Statements with Subsidiaries as of December 31, 2019" of this report.





INTERNAL CONTROL BODY



The powers of the Internal Control Body (ICB) are provided for in articles 98 and 99 of the Internal Regulations of the SFP and its action is based on article 44 Bis 1 of the Law on Credit Institutions that, from the financial reform of 2014, establishes the scope of action to carry out the control, evaluation and monitoring of the administrative provisions applicable to development banking.

Based on the Guidelines issued by the SFP, the 2019 Annual Work Plan was prepared considering ICB's type of action and, additionally, in terms of "Methodological note number one to integrate the control program" issued by the General Coordination of Surveillance and Control Bodies, the focus of the inspection capacity in the three main axes was considered as selection criteria:

Establishment
of internal
control in
institutions

Priority
programs of the
Presidency of
the Republic

Combating
corruption

I. Internal Auditing

From January to December 2019, through strategy set to identify, analyze, and evaluate the risks inherent or associated with Nafin's processes, in order to mitigate them, thus ensuring the achievement of institutional goals and objectives in a reasonable manner, and in an effective, efficient, and economic manner within the framework of transparency and accountability, planning, execution, and reporting of the results of eight audits and 35 observations was developed.

II. Audit for Development and Improvement of Public Management

Regarding management improvement, actions were carried out aimed at diagnosing problems related to management: the prevention of possible acts of corruption in the institution's processes, public contracting, feasibility studies; archive development, delivery-reception process of the Federal Public Administration and Updating of the Institutional Regulatory Framework through the Internal Regulations Administration System (SANI, in Spanish), among others. As a result of the above, the Internal Control System was kept; thus, supporting decision-making for compliance with institutional goals and objectives.

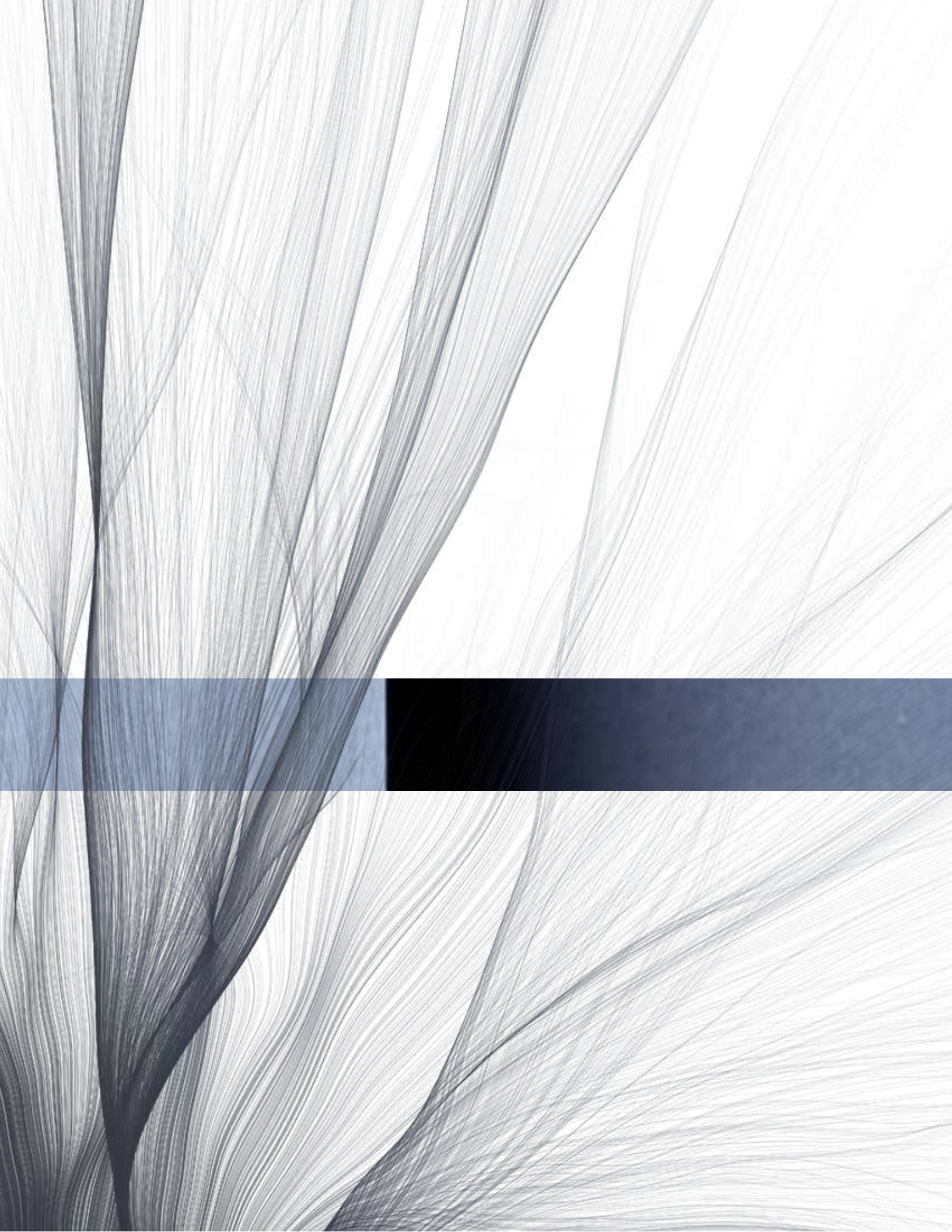
III. Complaint Investigation

Regarding the investigation of complaints of possible acts or omissions that could constitute administrative offenses committed by public servants for punishable behaviors, the ICB carried out its activities in accordance with the General Law of Administrative Responsibilities, including those related to individuals and companies due to infringements to the legal provisions on public procurement.



IV. Administrative Responsibilities

Moreover, in order to safeguard the principles that govern the public service and inhibit the breach of obligations by public servants, and in full exercise of powers, administrative liability procedures were initiated and sanctions corresponding to the breaches were imposed under the new General Law of Administrative Responsibilities and in strict compliance with the principles of legality and due process. Likewise, the non-conformities presented regarding public procurement were resolved in accordance with the applicable legal framework.





10

ANNEX A
NACIONAL FINANCIERA
IMPORTANT FIGURES

TABLE 1

NACIONAL FINANCIERA, S.N.C., RELEVANT FIGURES
Millions of Pesos at the End of the Year

Concepts	2014	2015	2016	2017	2018	2019
Total Assets 1/	389,750	384,828	503,541	516,230	582,917	550,930
Finance Agents Portfolio	1,013	109	94	65	29	9
1st -Tier Credit Portfolio	32,926	43,730	66,299	63,004	73,566	60,304
2nd-Tier Credit Portfolio	116,360	127,863	147,920	165,390	186,037	165,637
Total Credit Portfolio	150,299	171,702	214,313	228,459	259,632	225,950
Equity Investment at Enterprises	5,740	6,514	8,010	8,952	9,950	10,163
Equity Investment at Developers	1,496	1,532	1,539	1,637	1,638	1,732
Stock Equity Investment	23	95	59	269	180	295
Internal Debt	156,019	184,342	213,222	214,351	231,099	237,601
External Debt	31,327	44,054	63,533	71,927	79,944	71,823
Preventive reserve for credit risk	(3,665)	(3,999)	(4,464)	(4,511)	(3,971)	(4,047)
TOTAL PASSIVE	376,342	371,062	488,365	497,638	562,050	529,860
Accounting Capital	22,942	24,096	26,710	31,444	35,554	37,926
Assets in trust or under mandate	1,325,455	1,403,376	1,544,545	1,725,173	2,099,988	1,727,276
Endorsement Debtors and other Contingent Liabilities	56,359	64,414	53,520	235,458	260,974	191,074
Net Profit (Loss)	1,648	1,254	1,321	1,502	2,439	-2,272
Capitalization Level (%)	14.6	13.6	13.3	14.5	14.5	17.0

1/ Consolidated with subsidiaries

TABLE 2

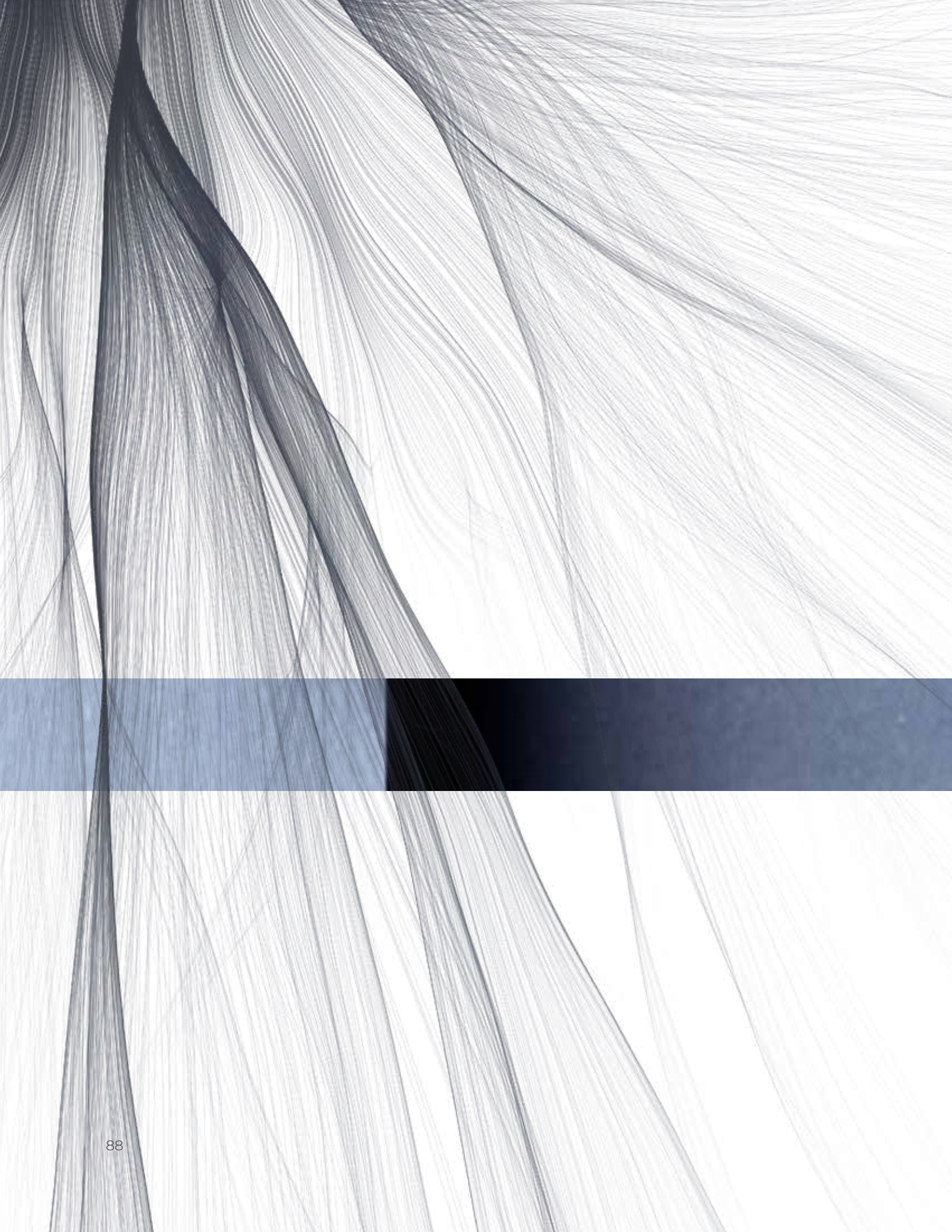
RAISING IN LOCAL CURRENCY
(Millions of Pesos)

Instrument	2014	2015	2016	2017	2018	2019
Stock Certificates Pg's Nafin	28,425	40,000	50,524	56,698	59,491	64,765
	<u>111,837</u>	<u>87,587</u>	<u>108,970</u>	<u>79,575</u>	<u>149,163</u>	<u>146,266</u>
New Instruments	140,262	127,587	159,494	136,274	208,654	211,031
Time Deposits in National Currency	7,153	41,153	7,153	5,153	5,153	10,523
Various Deposits	524	8	1,129	1,505	1,637	323
Total	<u>147,935</u>	<u>168,747</u>	<u>167,775</u>	<u>142,932</u>	<u>215,444</u>	<u>221,876</u>

TABLE 3

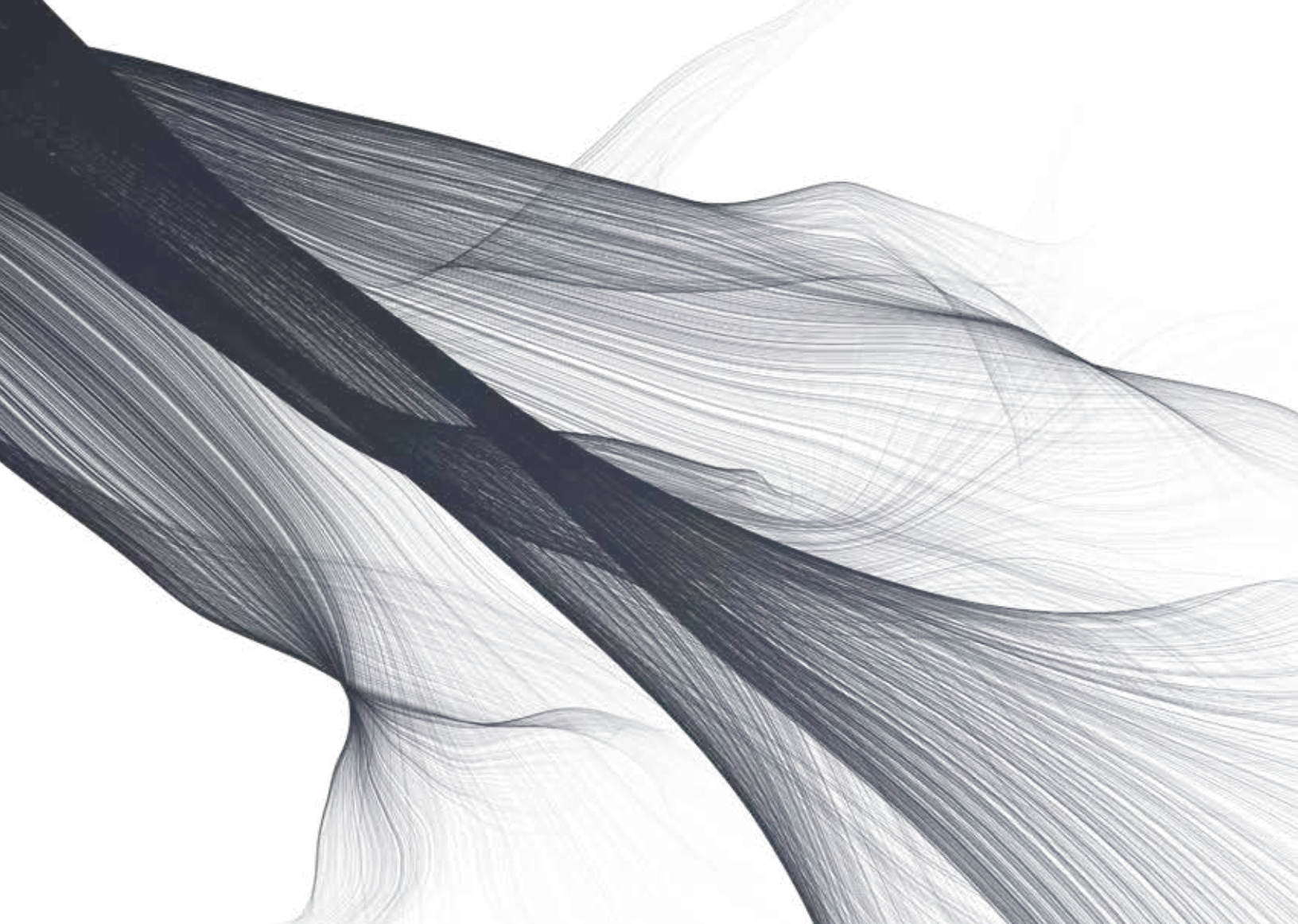
TOTAL EXTERNAL DEBT
BALANCE OF DECEMBER 31
(Millions of USD)

Concepts	2014	2015	2016	2017	2018	2019
1. Direct Debt	2,123.90	2,550.20	3,076.30	3,652.30	4,059.60	3,801.00
A. Deposit Certificates (London)	1,258.60	1,139.50	1,387.40	2,066.70	2,274.80	1,779.30
B. Green Voucher	-	500.00	500.00	500.00	500.00	500.00
C. Yen Bond	-	-	-	222.00	227.80	230.10
D. Multilateral Agencies	68.20	6.30	4.50	3.30	1.50	0.50
E. Private Bank, Eximbank's and Suppliers	797.10	904.40	1,184.40	860.30	1,055.50	1,291.10
Accrued Interest	<u>1.20</u>	<u>3.80</u>	<u>4.90</u>	<u>5.70</u>	<u>8.50</u>	<u>6.40</u>
Total	<u>2,125.10</u>	<u>2,554.00</u>	<u>3,081.20</u>	<u>3,658.00</u>	<u>4,068.10</u>	<u>3,807.30</u>





**ANNEX B
REPORT ON CONSOLIDATED
FINANCIAL STATEMENTS
WITH SUBSIDIARIES, AS OF
DECEMBER 31, 2019**





Salles Sainz

Grant Thornton

Consolidated Financial Statements with Independent
Auditor's Report Thereon

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

December 31, 2019 and 2018

Content

	Page
Independent auditor's report	1
Consolidated balance sheets	6
Consolidated statements of income	8
Consolidated statements of changes in stockholders' equity	9
Consolidated statements of cash flows	10
Notes to the Consolidated financial statements	
1. Nature of operations and main activities	11
2. Approval and basis of preparation of the consolidated financial statements	13
3. Summary of significant accounting policies	14
4. Changes in accounting policies and reclassifications	30
5. Foreign currency position	31
6. Cash and cash equivalents	31
7. Investment securities	33
8. Repurchase / resell agreements	38
9. Derivatives	39
10. Loan portfolio	44
11. Other accounts receivable, net	51
12. Foreclosed assets	51
13. Property and equipment	52
14. Permanent investments	52
15. Deposit funding	53
16. Debt securities issued in the Country	54
17. Credit securities issued abroad	56
18. Bank and other borrowings	57

19.	Other accounts payable	60
20.	Employee benefits	61
21.	Income taxes and employee statutory profit sharing (ESPS)	69
22.	Stockholders' equity	73
23.	Memorandum accounts	86
24.	Additional information on operations and segments	89
25.	Commitments and contingencies	99
26.	Risk management (unaudited information)	100
27.	Recently issued financial reporting standards	119
28.	Events after the reporting date	119
29.	Approval of the financial statements	120



Independent auditor's report

To the Board of Directors of:

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

Opinion

We have audited the accompanying consolidated financial statements of Nacional Financiera, S.N.C., Institución de Banca de Desarrollo and Subsidiaries (the Institution), which comprise the consolidated balance sheet as at December 31, 2019, 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.

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

Basis for opinion

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

Emphasis paragraph

The items of other income (expenses) and allowance for loan losses in the consolidated statement of income for the year ended December 31, 2018, and Derivatives for trading purposes and designated as hedges, both assets and liabilities, which are presented in the consolidated balance sheet as at that date, were reclassified as discussed in note 4) for their presentation and comparability with the consolidated financial statements as at and for the year ended December 31, 2019. Our opinion has not been modified in connection with this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole as at and for the year ended December 31, 2019, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How the matter was addressed in the audit
Derivatives. See Note 9 to the consolidated financial statements	
<p>The determination of fair value of some derivative financial instruments designated as hedges as at December 31, 2019 is carried out, by using valuation techniques that involve significant judgments made by Management, primarily when the use of inputs is required that are obtained from various sources or data not observed on the market and complex valuation models.</p> <p>In addition, the requirements that must be met for recording financial instruments designated as hedges in the accounting, as well as the documentation and monitoring for testing their effectiveness involve a certain degree of specialization by Management.</p> <p>The documentation of derivatives, their designation, valuation and results determine the accounting treatment and presentation of derivatives and their hedged position, which implies a complex methodological analysis that requires the participation of specialists.</p>	<p>Our audit procedures included, among other things, the review of the documentation of derivative financial instruments in compliance with the requirements set forth in the accounting criteria for the designation, recognition, and treatment of derivatives for trading and hedging purposes.</p> <p>We involved our expert for evaluating the reasonableness of valuation through selective tests for assisting us in understanding and evaluating the assumptions, methodologies, and input data used by the Institution for the determination of the fair value of derivative financial instruments, and the appropriate compliance with the criteria and documentation to be considered as such for hedging transactions, hedge effectiveness, and an appropriate disclosure and presentation in the financial statements, in adherence with accounting criterion B-5.</p>
Allowance for loan losses See Note 10 to the consolidated financial statements	
<p>As discussed in note 3 j), the allowance for loan losses of the commercial loan portfolio is determined in accordance with the classification rules and portfolio rating set forth by the Banking Commission. That methodology involves significant judgments for the evaluation of the credit rating of debtors, considering the various qualitative and quantitative factors used in the loan portfolio rating process, as well as for evaluating the reliability of the documentation and restatement for the determination of the allowance for loan losses of the loan portfolio.</p>	<p>As part of our audit procedures applied on a selective basis to evaluate the correct determination by Management of the allowance for loan losses and their effect on income for the year, we evaluated the qualitative and quantitative factors used, as well as the calculation mechanism applied, and their adherence to the current methodologies for each type of loan portfolio, as set forth by the Banking Commission.</p>

Key audit matter	How the matter was addressed in the audit
Employee benefits. See Note 20 to the consolidated financial statements	
<p>The Institution has established benefit plans and defined contributions for its employees that cover retirement pensions, seniority premiums, legal indemnifications, special loans for savings, and financial cost of credits and other postretirement benefits, which are discussed in note 20 to the financial statements. The determination of the liability corresponding to those plans as at December 31, 2019 was performed through complex actuarial calculations that require significant judgments in the selection of the hypotheses used for the determination of the projected net liability of labor obligations. Due to the foregoing and movements of the personnel of the Institution, as well as early retirements and considerable changes in the hypotheses performed in 2019, that liability was considered as a key audit matter.</p>	<p>With the participation of our expert, we evaluated the reasonableness of the assumptions used by Management for determining the projected net liability of labor obligations at retirement and for termination, as well as the calculation mechanism used, the treatment of personnel movements. Moreover, pursuant to selective tests, personnel data (age, seniority, salary, etc.) were verified that were included as the base for the actuarial calculation.</p>
Taxes on earnings and Employee profit sharing, due and deferred. See Note 21 to the consolidated financial statements	
<p>The determination of taxes on earnings and employee profit sharing, due and deferred, is complex, due to the interpretation of currently enacted tax legislation. It further requires significant judgments, fundamentally on the valuation of deferred tax on earnings assets and employee profit sharing to evaluate present and future factors that allow for the best estimate on the realization of those assets.</p>	<p>The audit procedures applied to the calculations made by Management for the recognition of taxes on earnings and employee profit sharing, due and deferred included selective tests of the inputs used and the nature of the items incorporated into those calculations, considering currently enacted tax legislation.</p> <p>With the participation of our tax specialist, we evaluated the reasonableness of the relevant tax assumptions, including the reversal period of temporary items, the projections of future taxable income determined by Management, which support the probability that tax on earnings assets will be recovered.</p>

Other matter

The consolidated financial statements as at and for the year ended December 31, 2018, that are presented for comparative purposes, were audited by another auditor who expressed an unmodified opinion on those statements on March 06, 2019.

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

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

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

The persons responsible for governance of the Institution are responsible for supervising the process and issue of its financial reporting.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

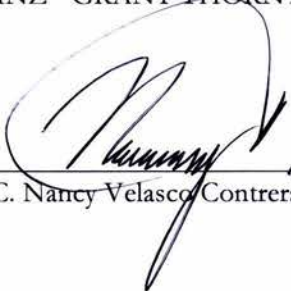
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements of the group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for the auditor's opinion.

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

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

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

SALLES, SAINZ - GRANT THORNTON, S.C.



C.P.C. Nancy Velasco Contreras

Mexico City, Mexico
March 5, 2020

Nacional Financiera, S. N. C.,
Institución de Banca de Desarrollo and Subsidiaries
Av. Insurgentes Sur 1971, Col. Guadalupe Inn, Zip Code 01020 Mexico City
Consolidated Balance Sheets
Years ended December 31, 2019 and 2018
(Millions of Mexican pesos)

Assets	2019	2018	Liabilities and Stockholders' Equity	2019	2018
Cash and cash equivalents (Note 6)	\$ 61,803	\$ 57,308	Deposit funding (Note 15)		
Margin accounts	21	16	Time deposits		
Investment securities (Note 7)			Money market	\$ 145,441	\$ 143,812
Trading	211,124	215,033	Debt securities issued		
Available-for-sale	16,522	15,836	In the Country:		
Held-to-maturity	13,042	13,579	Stock certificates (Note 16)	65,817	60,439
	240,688	244,448	Abroad		
Debtors on repurchase/resell agreements (Note 8)	9,550	-	Bank bonds (Note 17)	33,581	44,774
Derivatives (Note 9)			Stock notes	13,826	14,358
Trading purposes	1,870	8,186		258,665	263,383
Hedging purposes	1,461	1,546	Bank and other borrowings (Note 18)		
	3,331	9,732	Due on demand	8,669	10,328
Valuation adjustment from hedging of financial assets	2,161	5,870	Short-term	11,319	8,415
Current loan portfolio			Long-term	13,094	12,392
Commercial loans				33,082	31,135
Business or commercial activity	51,829	61,672	Creditors on repurchase/resell agreements (Note 8)	200,418	218,623
Financial entities	163,983	180,032	Derivatives (Note 9)		
Government entities	9,274	17,047	Trading purposes	1,917	8,252
	225,086	258,751	Hedging purposes	5,795	9,470
Consumer loans	20	5		7,712	17,722
Residential mortgages loans	104	104	Valuation adjustments from hedging financial liabilities	73	884
Loans granted as Federal Government Financial Agent	9	29	Other accounts payable (Note 19)		
Total current loan portfolio	225,219	258,889	Income tax payable	101	436
Past-due loan portfolio			Employee statutory profit sharing payable	-	332
Commercial loans			Creditors on settlement of transactions	7,405	20,358
Business or commercial activity	488	509	Creditors on collateral received in cash	319	1,634
Financial institutions	228	228	Sundry creditors and other accounts payable	3,560	940
	716	737		11,385	23,700
Consumer loans	6	2	Deferred credits and prepayments	82	85
Residential mortgages loans	9	4			
Total past-due loan portfolio	731	743	Total liabilities	511,417	555,532
Loan portfolio	225,950	259,632	Stockholders' equity (Note 22)		
(-) less:			Paid-in capital		
Allowance for loan losses	(7,953)	(7,079)	Capital stock	9,202	9,202
Total loan portfolio, net (Note 10)	217,997	252,553	Contribution for future capital increases formalized	7,264	1,376
Other accounts receivable, net (Note 11)	6,867	15,456	Paid stock premium	14,225	14,225
Foreclosed assets, net (Note 12)	-	3		30,691	24,803
Property, plant and equipment, net (Note 13)	1,483	1,452	Earned capital		
Permanent investments (Note 14)	2,904	2,926	Statutory reserves	1,730	1,730
Deferred income taxes and employee statutory profit sharing, net	3,260	1,660	Retained earnings	8,089	5,650
Other assets			Result from valuation of available for sale securities, net	5	(202)
Deferred income charges, prepaid expenses and intangibles	865	1,225	Remeasurements of defined employee benefits, net	(1,442)	32
	865	1,225	Effects of valuation in associate and affiliate companies	1,125	1,102
Total assets	\$ 550,930	\$ 592,649	Net income	(2,272)	2,439
				7,235	10,751
			Non-controlling interest	1,587	1,563
			Total stockholders' equity	39,513	37,117
			Total liabilities and stockholders' equity	\$ 550,930	\$ 592,649

Nacional Financiera, S. N. C.,
Institución de Banca de Desarrollo and Subsidiaries
Av. Insurgentes Sur 1971, Col. Guadalupe Inn, Zip Code 01020 Mexico City
Years ended December 31, 2019 and 2018
Consolidated Statement of Income
(Millions of Mexican pesos)

Memorandum accounts (Note 23)

	2019	2018
Contingent assets and liabilities	\$ 80,109	\$ 70,798
Loan commitments	282,255	190,176
Assets placed in trust or mandate		
Trusts	1,691,894	1,705,730
Mandates	13,864	13,912
	1,705,758	1,719,642
Federal Government Financial Agent	368,085	380,346
Assets in custody or administration	537,959	542,707
Collateral received by the entity	53,371	17,058
Collateral received and sold or pledged as a guarantee by the entity	43,819	17,055
Investment banking transactions on behalf of third parties, net	103,837	92,007
Interest earned but not collected arising from past-due loan portfolio	73	20
Other memorandum accounts	694,613	750,152

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

At December 31, 2019 and 2018, the historical capital stock, in accordance with the Regulation of the Organic Law of Nacional Financiera, S. N. C., I. B. D amounts to \$2,390 in both years.

These consolidated balance sheets could be searchable on the following webpage http://www.nafin.com/portafolio/content/nafin-encifras/informacionfinanciera/estados_financieros_dictaminados.html and <https://portafolioinfo.cnbv.gob.mx/Paginas/contenidos.aspx?ID=37&Titulo=Banca%20de%20Desarrollo>

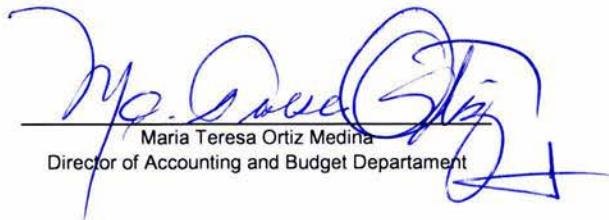
These consolidated balance sheets were approved by the Board of Directors, under the responsibility of the following officers.



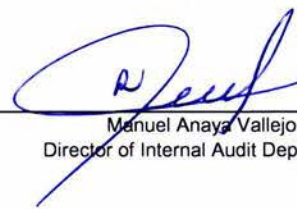
Eugenio Francisco Domingo Najera Solorzano
Chief Executive Officer



Jose Alberto Gomez Sandoval
Chief Executive Officer of
Finance and Administration



Maria Teresa Ortiz Medina
Director of Accounting and Budget Department



Manuel Anaya Vallejo
Director of Internal Audit Department

See accompanying notes to consolidated financial statements.

Nacional Financiera, S. N. C.,
Institución de Banca de Desarrollo and Subsidiaries
Av. Insurgentes Sur 1971, Col. Guadalupe Inn, Zip Code 01020 Mexico City
Years ended December 31, 2019 and 2018
Consolidated Statement of Income
(Millions of Mexican pesos)

	<u>2019</u>	<u>2018</u>
Interest income (Note 24)	\$ 38,623	\$ 36,611
Interest expense (Note 24)	<u>(32,852)</u>	<u>(32,816)</u>
Financial margin	5,771	3,795
Allowance for loan losses (Note 10)	<u>(930)</u>	<u>(1,345)</u>
Financial margin adjusted for the allowance for loan losses	4,841	2,450
Commission and fees income	3,271	3,043
Commission and fees expense	(172)	(198)
Financial intermediation income	41	1,315
Other operating income (expenses), net	(7,210)	36
Administrative and promotion expenses	<u>(2,995)</u>	<u>(3,580)</u>
Operating income	(2,224)	3,066
Equity method in the net income of unconsolidated subsidiaries and affiliates	<u>30</u>	<u>15</u>
Income, before income taxes	(2,194)	3,081
Current income tax (Note 21)	(838)	(946)
Deferred income tax, net (Note 21)	<u>756</u>	<u>400</u>
Net income	(2,276)	2,535
Non-controlling interests	<u>(4)</u>	<u>(96)</u>
Net income on controlling interests	\$ (2,272)	\$ 2,439


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

These consolidated balance sheets could be searchable on the following webpage http://www.nafin.com/portalfin/content/nafin-en-cifras/informacion_financiera/estados_financieros_dictaminados.html and <https://portafolioinfo.cnbv.gob.mx/Paginas/contenidos.aspx?ID=37&Titulo=Banca%20de%20Desarrollo>

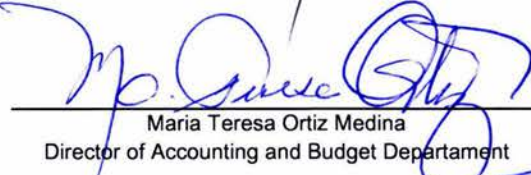
These consolidated statements of income were approved by the Board of Directors, under the responsibility of the following officers.



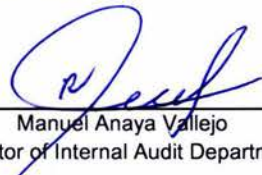
 Eugenio Francisco Domingo Najera Solorzano
 Chief Executive Officer



 Jose Alberto Gomez Sandoval
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 Finance and Administration



 Maria Teresa Ortiz Medina
 Director of Accounting and Budget Department



 Manuel Anaya Vallejo
 Director of Internal Audit Department

See accompanying notes to consolidated financial statements.

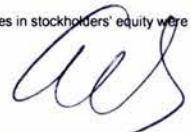
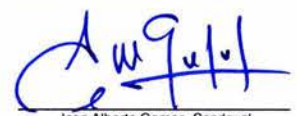

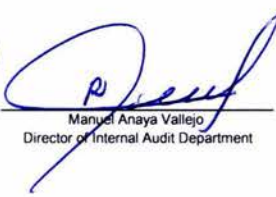
Nacional Financiera, S. N. C.,
 Institución de Banca de Desarrollo and Subsidiaries
 Av. Insurgentes Sur 1971, Col. Guadalupe Inn, Zip Code 01020 Mexico City
 Years ended December 31, 2019 and 2018
 Consolidated Statements of Changes in Stockholders' Equity
 (Millions of Mexican pesos)

	Paid in capital				Earned capital						
	Capital stock	Contributions for future capital stock increases formalized by the Board of Directors	Paid stock premium	Statutory reserves	Retained earnings	Result from valuation of available-for-sale securities	Remeasurements of defined employee benefits, net	Effects of valuation in associated and affiliated companies	Net Income	Non-controlling interest	Total stockholder's equity
Balances as of December 31, 2017	\$ 8,805	\$ 5,700	\$ 8,922	\$ 1,730	\$ 4,148	\$ 108	\$ (213)	\$ 742	\$ 1,502	\$ 1,418	\$ 32,862
Changes resulting from stockholders' resolutions:											
Appropriation of prior year income	-	-	-	-	1,502	-	-	-	(1,502)	-	-
Contributions for future capital stock increases	-	1,376	-	-	-	-	-	-	-	-	1,376
Capitalization of contributions for future capital stock increases	397	(5,700)	5,303	-	-	-	-	-	-	-	-
Total	<u>397</u>	<u>(4,324)</u>	<u>5,303</u>	<u>-</u>	<u>1,502</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,502)</u>	<u>-</u>	<u>1,376</u>
Changes related to the recognition of comprehensive income											
Net income	-	-	-	-	-	-	-	-	2,535	-	2,535
Result from valuation in associated and affiliated companies	-	-	-	-	-	-	-	360	-	-	360
Result from valuation of available-for-sale securities	-	-	-	-	-	(310)	-	-	-	-	310
Remeasurements of defined employee benefits, net	-	-	-	-	-	-	245	-	-	-	245
Non-controlling interest	-	-	-	-	-	-	-	-	(96)	145	49
Total of changes related to the recognition of comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(310)</u>	<u>245</u>	<u>360</u>	<u>2,439</u>	<u>145</u>	<u>2,879</u>
Balances as of December 31, 2018	<u>9,202</u>	<u>1,376</u>	<u>14,225</u>	<u>1,730</u>	<u>5,650</u>	<u>(202)</u>	<u>32</u>	<u>1,102</u>	<u>2,439</u>	<u>1,563</u>	<u>37,117</u>
Changes resulting from stockholders' resolutions:											
Appropriation of prior year income	-	-	-	-	2,439	-	-	-	(2,439)	-	-
Contributions for future capital stock increases	-	5,888	-	-	-	-	-	-	-	-	5,888
Total	<u>-</u>	<u>5,888</u>	<u>-</u>	<u>-</u>	<u>2,439</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,439)</u>	<u>-</u>	<u>5,888</u>
Changes related to the recognition of comprehensive income											
Net income	-	-	-	-	-	-	-	-	(2,275)	-	(2,275)
Result from valuation in associated and affiliated companies	-	-	-	-	-	-	-	23	-	-	23
Result from valuation of available-for-sale securities, net	-	-	-	-	-	207	-	-	-	-	207
Remeasurements of defined employee benefits, net	-	-	-	-	-	-	(1,474)	-	-	-	(1,474)
Non-controlling interest	-	-	-	-	-	-	-	-	3	24	27
Total of changes related to the recognition of comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>207</u>	<u>(1,474)</u>	<u>23</u>	<u>(2,272)</u>	<u>24</u>	<u>3,492</u>
Balances as of December 31, 2019	<u>\$ 9,202</u>	<u>\$ 7,264</u>	<u>\$ 14,225</u>	<u>\$ 1,730</u>	<u>\$ 8,089</u>	<u>\$ 5</u>	<u>\$ (1,442)</u>	<u>\$ 1,125</u>	<u>\$ (2,272)</u>	<u>\$ 1,587</u>	<u>\$ 39,513</u>

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

These consolidated balance sheets could be searchable on the following webpage http://www.nafin.com/portalfin/content/nafin-en-cifras/informacion-financiera/estados_financieros_dictaminados.html and <https://portalofininfo.cnbv.gov.mx/Paginas/contenidos.aspx?ID=37&Titulo=Banca%20de%20Desarrollo>

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

			
Eugenio Francisco Domingo Najera Solorzano Chief Executive Officer	Jose Alberto Gomez Sandoval Chief Executive Officer of Finance and Administration	Maria Teresa Ortiz Medina Director of Accounting and Budget Department	Manuel Anaya Vallejo Director of Internal Audit Department

See accompanying notes to consolidated financial statements.

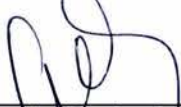
Nacional Financiera, S. N. C.,
Institución de Banca de Desarrollo and Subsidiaries
Av. Insurgentes Sur 1971, Col. Guadalupe Inn, Zip Code 01020 Mexico City
Years ended December 31, 2019 and 2018
Consolidated Statement of Cash Flows
(Millions of Mexican pesos)

	<u>2019</u>	<u>2018</u>
Net Income	\$ (2,272)	\$ 2,439
Adjustments for items not requiring cash flow:		
Allowance for uncollectible or doubtful accounts	585	358
Depreciation of property, furniture and equipment	37	34
Provisions	133	(4,077)
Current and deferred income taxes	(844)	546
Equity method of unconsolidated subsidiaries and affiliates	(30)	(15)
Others, mainly valuation at fair value	(28)	148
	<u>(147)</u>	<u>(3,006)</u>
Operating activities:		
Change in margin accounts	(4)	19
Change in investment securities	3,985	(17,050)
Change in debtors on repurchase/ resell agreements	(9,550)	2,718
Change in derivatives (asset)	(10,110)	4,041
Change in loan portfolio (net)	34,556	(30,120)
Change in foreclosed assets	-	1
Change in other operating assests	8,368	543
Change in deposit funding	(4,717)	14,899
Change in bank and other borrowings	1,947	5,697
Change in creditors on repurchase/ resell agreements	(18,205)	29,838
Change in derivatives (liability)	10,812	(2,360)
Change in other operating liabilities	(15,863)	19,899
Payments of income taxes	(243)	(666)
Net cash flows from operating activities	<u>976</u>	<u>27,459</u>
Investing activities:		
Payments for acquisition of property, furniture and equipment	(68)	-
Proceeds from disposal of subsidiaries and associates	100	461
Collections of cash dividends	18	28
Net cash from investing activities	<u>50</u>	<u>489</u>
Financing activities:		
Contributions for future capital stock increases	5,888	1,376
Net cash flow from financing activities	<u>5,888</u>	<u>1,376</u>
Net increase in cash and cash equivalents	4,495	28,757
Cash and cash equivalents at beginning of year	57,308	28,551
Cash and cash equivalents at end of year	\$ 61,803	\$ 57,308

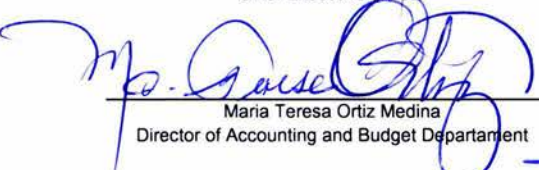
These consolidated statement of cash flows were prepared in accordance with the Accounting Criteria for credit institutions issued by the National Banking and Securities Commission, based on Articles 99, 101, and 102 of the Law for Credit Institutions which are of a general and mandatory nature and have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

These consolidated balance sheets could be searchable on the following webpage http://www.nafin.com/portalfin/content/nafin-en-cifras/informacion-financiera/estados_financieros_dictaminados.html and <https://portafolioinfo.cnbv.gob.mx/Paginas/contenidos.aspx?ID=37&Titulo=Banca%20de%20Desarrollo>


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



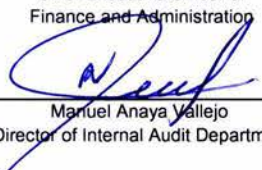
 Eugenio Francisco Domingo Najera Solorzano
 Chief Executive Officer



 Maria Teresa Ortiz Medina
 Director of Accounting and Budget Department



 Jose Alberto Gomez Sandoval
 Chief Executive Officer of
 Finance and Administration



 Manuel Anaya Vallejo
 Director of Internal Audit Department

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(Millions of Mexican pesos)

1. NATURE OF OPERATIONS AND MAIN ACTIVITIES

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

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

The Institution operates as a development banking institution, in accordance with its internal organic law and regulations, the Credit Institutions Law and the General Provisions Applicable to Credit Institutions (the Provisions) issued by the National Banking and Securities Commission (the Banking Commission).

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

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

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

the decentralization of the Mexican banking system, with adherence to sound practices and banking applications.

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

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

At December 31, 2019 and 2018, the Institution and its consolidated subsidiaries are integrated as follows:

- i. Operadora de Fondos Nafinsa, S. A. de C. V. - Which aims to contribute to the development of financial markets, promoting access to the securities market to small and medium investors.
- ii. Corporación Mexicana de Inversiones de Capital, S. A. de C. V. - Incorporated on February 2, 2006, its main activity being to buy, sell and invest in companies, institutions and private equity funds, as well as promote productive investment in Mexico in the medium and long-term, promoting the institutionalization, development and competitiveness of the small and medium enterprises.
- iii. Fideicomiso 80595 Programa de venta de títulos en directo al público – Manages the trust funds and carries out the necessary actions to develop and implement the Program for the sale of securities directly to the public, in accordance with the operation rules, which, were appropriate, the Trust's Technical Committee authorizes.
- iv. Fideicomiso 11480 Fondo para la participación de riesgos - Its purpose is having entities which allow to fulfill compliance with the institutional objectives related to the access of micro, small and medium-sized companies in the Country to formal finance. The Institution implemented the guarantee program, in order to share with the financial banking and non-banking institutions (intermediaries) determined by the Trust's Technical Committee, the credit risk of the financing that these grant to national companies and individuals.
- v. Fideicomiso 11490 Fondo para la participación de riesgos en fianzas – Its purpose is sharing with the country's bonding institutions, established in accordance with the Federal law for bonding institutions determined by the Trust's Technical Committee, the risk of default on administrative bonds and/or procurement concerning section III, article 36 of the law of bonds, granted to micro, small and medium- sized enterprises, as well as to individuals with entrepreneurial activity, which have signed a contract to supply goods, services and public works to the Federal public administration.
- vi. Fideicomiso 80757 Defensa y asistencia legal- Its objective is to manage the trust corpus and make the payment of the considerations for defense services and legal assistance to the beneficiaries (NAFIN employees), who have a legal or administrative proceeding arising from discharging their duties.

- vii. Plaza Insurgentes Sur, S. A. de C. V.- Its purpose is to provide the Institution with integral real estate services through the leasing of space and furniture, as well as adaptation of offices with preventive and corrective maintenance programs to real estate infrastructure.
- viii. Pissa Servicios Corporativos, S. A. de C. V. (in liquidation)- Provides complementary or auxiliary services in the administration or in the realization of the corporate purpose of any national credit entity that is or becomes its shareholder, as well as auxiliary companies and trusts thereof.

At December 31, 2019 and 2018, the operations structure of the Institution abroad, includes two branches located in London, England and another in the Grand Cayman Islands.

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

Authorization

On March 5, 2020, Eugenio Francisco Domingo Najera Solórzano (Chief Executive Officer), Jose Alberto Gomez Sandoval (CEO of Finance and Administration), Manuel Anaya Vallejo (Director of Internal Audit) and Maria Teresa Ortiz Medina (Director of the Accounting and Budget Department) authorized the issuance of the consolidated financial statements and related notes, consequently, they do not reflect events beyond that date.

The Institution's Board of Directors and the Banking Commission are empowered to modify the consolidated financial statements after issuance. The 2019 consolidated financial statements will be approved at the next meeting of the Board of Directors.

Bases of presentation

a) Statement of compliance

The accompanying consolidated financial statements have been prepared, based on the banking legislation, and in conformity with the accounting criteria established by the Banking Commission for credit institutions in Mexico. The Banking Commission is responsible for the inspection and supervision of credit institutions, as well as reviewing their financial information.

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

b) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period.

Significant management judgments

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

Assumptions and uncertainties in the estimates

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

- Note 3 (t)- Measurement of defined benefit obligations: key actuarial assumptions;
- Note 3 (p)- Recognition of deferred tax assets;
- Note 9- Derivatives;
- Note 10 (d)- Allowance for loan losses.

c) Functional and reporting currency

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

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

d) Recognition of assets and liabilities from financial instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies shown in this note have been applied consistently in the preparation of the consolidated financial statements.

a. Consolidation of financial statements

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

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

All subsidiaries present their financial information for consolidation purposes as of December 31, 2019 and 2018.

b. Impact of inflation-

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

The years ended December 31, 2019 and 2018 are considered under a non-inflationary economic environment (inflation accumulated over the three preceding years less than 26%), as established in MFRS B-10 "Effects of Inflation", consequently the effects of inflation on the Institution's financial information are not recognized. Should the environment become inflationary again, the cumulative effects of inflation not recognized in prior periods must be retrospectively recognized from the last period that the economic environment was considered as non- inflationary. The accumulated inflation rate of the last three years is shown as follows:

<u>December 31</u>	<u>UDI</u>	<u>Inflation</u>	
		<u>Annual</u>	<u>Accumulated</u>
2018	6.226631	4.92%	15.71%
2017	5.934551	6.68%	12.60%
2016	5.562883	3.39%	9.97%

c. Cash and cash equivalents

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

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

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

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

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

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

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

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

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

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

d. Margin accounts

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

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

e. Investment securities-

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

Trading securities

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

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

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

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

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

Available for sale securities

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

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

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

Held to maturity securities

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

Securities impairment

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

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

Value date transactions

Securities acquired where settlement takes place on a subsequent date, up to a maximum of four business days following the date of the purchase-sale transaction, are recognized as restricted securities, while securities sold are recognized as securities to be delivered, and are deducted from investment securities; the counter entry is a credit or debit to a settlement account, as applicable.

Where the amount of securities to be delivered exceeds the balance of same nature proprietary securities (government, bank, equity and other debt securities), this is reflected as a liability under the "Assigned securities pending settlement" caption.

Reclassification between categories

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

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

f. Repurchase/resell agreements

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

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

The Institution acting as buyer recognizes the received collateral in memorandum accounts within the caption of "Collateral received by the entity", in accordance with accounting criterion B-9 "Assets in custody and under management". Financial assets granted as collateral, when the Institution is acting as seller, are reclassified in the consolidated balance sheet within the caption of "Investment securities", reporting it as a restricted asset.

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

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

g. Derivatives

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

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

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

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

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

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

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

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

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

h. Offsetting clearing accounts

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

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

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

i. Loan portfolio

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

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

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

Past-due loans and interest -

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

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

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

2. Their installments have not been fully settled on the terms originally agreed, considering the following:
 - a) If the debt consists in loans with a single payment of principal and interest at maturity, and are 30 or more calendar days past-due;
 - b) If the debt refers to loans with a single payment of principal at maturity and periodic payments of interest, and the related interest payment is 90 or more calendar days past-due, or principal is 30 or more calendar days past-due;
 - c) If the debt consists of loans with principal and interest periodic partial payments, including mortgage loans, are 90 or more calendar days past-due;
 - d) If the debt consists of revolving loans, which are unpaid for two monthly normal billing periods or, where the billing period is other than monthly, when they are 60 or more calendar days past-due; and
 - e) Overdrafts from checking accounts, and notes receivable, upon occurrence of such event.

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

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

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

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

Sustained payment

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

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

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

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

- a) the borrower has covered at least 20% of the original amount of the loan at the moment of the restructuring or renewal or,
- b) the amount of interest accrued under the restructuring or renewal payment scheme corresponding to a period of 90 days would have been covered.

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

Restructuring and renewals

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

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

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

- i) Paid the total accrued interest, and
- ii) Paid the original principal loan amount which at the renewal or restructuring date should have been covered.

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

- i) Fully paid the total interest accrued;
- ii) Covered the total original amount of the loan which at the date of renewal or restructuring should have been paid, and
- iii) Paid 60% of the original loan amount.

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

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

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

- i) Guarantees: only when involving the extension or replacement with better quality guarantees
- ii) Interest rate: when the agreed-upon interest rate is improved.
- iii) Currency: provided that the rate corresponding to the new currency is applied.
- iv) Payment date: only if the change does not represent exceeding or modifying the frequency of payments. In no case shall the change in the payment date enable omitting the payment in any given period.

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

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

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

Cost and expenses related to loan origination

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

j. Allowance for loan losses

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

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

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

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

The estimates carried out at December 31, 2019 and 2018, were determined based on the risk levels and allowance percentage according to the following table:

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

Mortgage loans

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

The risk grades and percentages of allowance for loan losses at December 31, 2019 and 2018, are shown as follows:

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

Non revolving consumer loans portfolio

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

The risk grades and percentages of provision for loan losses at December 31, 2019 and 2018, are shown as follows:

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

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

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

k. Other accounts receivable

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

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

l. Foreclosed assets or assets received in lieu of payment

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

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

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

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

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

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

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

m. Property and equipment

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

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

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

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

n. Permanent investments

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

o. Other assets

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

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

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

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

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

Deferred income taxes and deferred ESPS are accounted for under the asset and liability method. Deferred taxes and ESPS assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and in the case of Income Tax (IT) for operating loss carryforwards. Deferred tax and ESPS assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred ESPS and taxes assets and liabilities of a change in tax rates is recognized in results of operations for the period enacted.

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

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

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

q. Deposit funding

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

r. Provisions

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

s. Bank and other borrowings

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

t. Employee benefits**Short-term direct benefits**

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

Long-term direct benefits

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

Termination benefits

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

Defined benefit plans

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

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

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

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

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

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

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

u. Revenue recognition

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

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

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

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

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

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

v. Foreign currency transactions

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

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

w. Memorandum accounts

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

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

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

x. Contingencies

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

Contingent revenues, earnings or assets are not recognized until their realization is assured.

4. CHANGES IN ACCOUNTING POLICIES AND RECLASSIFICATIONS

- a) In 2019, the Institution adopted the change in accounting criterion B-6 “Loan portfolio” published in the Official Federal Gazette on December 27, 2017, consisting of recognizing the reversal of the excess of allowances for loan losses, in the same item that gave rise thereto in the period in which that excess allowance occurs and is allocated against income for the year in the item of allowances for loan losses. Pursuant to the foregoing, the statement of income for the year ended December 31, 2018 has been reclassified in the items of allowance for loan losses and other income (expenses) to be comparable with the statement of income for the year ended December 31, 2019.
- b) The consolidated financial statements as at December 31, 2018, were reclassified for purposes of comparability with the consolidated financial information presented as at December 31, 2019, in the items of trading and hedging derivatives, respectively. Those changes did not generate impacts on income for the year. In the audited consolidated financial statements as at December 31, 2018, the presentation was carried out by a net offset of the balances of derivatives, as shown below:

	2018	
	Audited	Reclassified
<i>Assets</i>		
Derivative (Note 9)		
Trading purposes	\$ -	\$ 8,186
Hedging purposes	-	1,546
	<u>\$ -</u>	<u>\$ 9,732</u>
<i>Liabilities</i>		
Derivative (Note 9)		
Trading purposes	\$ 66	\$ 8,252
Hedging purposes	7,924	9,470
	<u>\$ 7,990</u>	<u>\$ 17,722</u>
Net value of balances of trading derivatives	(66)	(66)
Net value of balances hedging derivatives	(7,924)	(7,924)
	<u>\$ (7,990)</u>	<u>\$ (7,990)</u>

5. FOREIGN CURRENCY POSITION

Central Bank regulations require that banks maintain balanced positions in foreign currencies within certain limits. The short or long position permitted by the Central Bank is equal to a maximum of 15% of the basic capital computed as of the third immediately preceding quarter. Therefore, as of December 31, 2019 and 2018, the Institution's position is within the authorized limits. The foreign currency position of Nacional Financiera, S.N.C. Institución de Banca de Desarrollo not consolidated, is analyzed as follows:

	Dollars		Equivalent in pesos	
	2019	2018	2019	2018
Assets	5,432	5,477	102,475	107,621
Liabilities	(5,428)	(5,476)	(102,407)	(107,599)
Long (short) position	4	1	68	22

At December 31, 2019 and 2018, the assets and liabilities in millions of foreign currency of domestic currency and valued balances are shown below:

	2019			2018		
	Assets	Liabilities	Net position	Assets	Liabilities	Net position
USD Dollar	5,164	(5,168)	(4)	5,213	(5,216)	(3)
Japanese Yen	25,046	(25,037)	9	25,038	(25,038)	-
Euros	26	(20)	6	25	(21)	4
Sterling pounds	6	(5)	1	6	(6)	-

At December 31, 2019 and 2018, the assets and liabilities in foreign currencies translated to pesos are shown below:

	2019			2018		
	Assets	Liabilities	Net position	Assets	Liabilities	Net position
USD dollars	\$ 97,415	\$ (97,494)	\$ (79)	\$ 102,437	\$(102,500)	\$ (63)
Japanese Yen	4,348	(4,347)	1	4,483	(4,483)	-
Euros	556	(433)	123	560	(482)	78
Sterling pounds	149	(133)	16	141	(134)	7
French Francs	7	-	7	-	-	-
	\$ 102,475	\$(102,407)	\$ 68	\$ 107,621	\$(107,599)	\$ 22

The exchange rate relative to the US dollar at December 31, 2019 and 2018, was \$18.8642 and \$19.6512, pesos per dollar, respectively, and on the issuance date of the consolidated financial statements, it was \$19.5335 pesos per dollar.

6. CASH AND CASH EQUIVALENTS

At December 31, 2019 and 2018, cash and cash equivalents are analyzed as follows:

	2019	2018
Domestic and foreign banks	\$ 29,541	\$ 15,192
Call money	12,004	8,722
24 and 48 hours foreign currency sales	(2,742)	(18,469)

Other cash and cash equivalents (notes receivable)	1	1
Restricted funds:		
Deposits with the central bank	13,089	13,087
24, 48 and 72 hours foreign currency purchase	9,910	38,775
	<u>\$ 61,803</u>	<u>\$ 57,308</u>

At December 31, 2019 and 2018, deposits at the Central Bank correspond to monetary regulation which have no maturity. The interest generated by deposits in the Central Bank at December 31, 2019 and 2018, were \$1,071 and \$1,015, respectively. The Provisions in force issued by the Central Bank for monetary regulation deposits set that may be comprised of cash, securities, or both.

At December 31, 2019 and 2018, the Institution had the following call money:

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

	2018		
	Amount	Annual rate	Annual term
Banco de México	\$ 7,772	8.25%	2 days
Credit Suisse	18	8.25%	2 days
Sociedad Hipotecaria Federal, S.N.C.	982	2.5%	2 y 5 days
	<u>\$ 8,772</u>		

At December 31, 2019 and 2018, foreign currency receivable and deliverable equivalent in pesos in connection with the purchases and sales to be settled within 24, 48 and 72 hours were negotiated in USD dollars.

At December 31, 2019 and 2018, cash and cash equivalent in foreign currency are as follows:

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

	2018		
	Millions of domestic currency	Exchange rate	Equivalent in pesos
USD dollars	1,852	\$ 19.6512	\$ 36,393
Euros	1	22.4691	33
Sterling pounds	-	25.0474	7
			<u>\$ 36,433</u>

7. INVESTMENT SECURITIES

At December 31, 2019 and 2018, investment securities at fair value, except held to maturity, are analyzed as follows:

Trading

	2019			
	Acquisition cost	Accrued interest	Valuation	Book Value
<i>Unrestricted:</i>				
Shares of Fondo de Desarrollo del Mercado de Valores (FDMV)	\$ 296	\$ -	\$ (5)	\$ 291
Bonds	2,374	5	3	2,382
Certificates	7,639	24	-	7,663
CETES	373	3	-	376
Ipabonos	3,042	-	(3)	3,039
Bank promissory notes	2,000	-	-	2,000
<i>Restricted securities:</i>				
Bonds	99,089	11	163	99,263
Certificates	19,427	-	84	19,511
Ipabonos	69,190	19	107	69,316
Bank promissory notes	7,023	-	-	7,023
Equity investments	260	-	-	260
	<u>\$ 210,713</u>	<u>\$ 62</u>	<u>\$ 349</u>	<u>\$ 211,124</u>
2018				
	Acquisition cost	Accrued interest	Valuation	Book Value
<i>Unrestricted:</i>				
Shares of Fondo de Desarrollo del Mercado de Valores (FDMV)	\$ 159	\$ -	\$ 15	\$ 174
Bonds	276	9	(13)	272
Certificates	1,594	7	(10)	1,591
CETES	286	4	-	290
Ipabonos	160	2	-	162

Restricted securities:

Bonds	98,095	-	85	98,180
Certificates	26,185	1	12	26,198
CETES	1,936	-	(2)	1,934
Ipabonos	85,463	15	78	85,556
Bank promissory notes	673	1	-	674
Ipabonos	2	-	-	2
	<u>\$ 214,829</u>	<u>\$ 39</u>	<u>\$ 165</u>	<u>\$ 215,033</u>

Available for sale

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

	2018			
	<u>Acquisition cost</u>	<u>Accrued interest</u>	<u>Valuation</u>	<u>Book Value</u>
Sovereign debt	\$ 2,565	\$ 37	\$ (64)	\$ 2,538
Bonds issued by credit Institution	435	3	(21)	417
Debentures and other securities	4,096	71	(252)	3,915
Equity investments	7,268	-	1,698	8,966
	<u>\$ 14,364</u>	<u>\$ 111</u>	<u>\$ 1,361</u>	<u>\$ 15,836</u>

Held-to-maturity:

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

	2018		
	Acquisition cost	Accrued interest	Book Value
<i>Unrestricted:</i>			
Convertible prizes bonds	\$ 5	\$ -	\$ 5
Certificates	198	163	361
Segregable certificates	3,333	1,637	4,970
Sovereign debt	242	6	248
Debenture and other securities	881	13	894
Udibonos	51	23	74
<i>Restricted securities:</i>			
Segregable certificates	4,705	2,322	7,027
	<u>\$ 9,415</u>	<u>\$ 4,164</u>	<u>\$ 13,579</u>

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

Trading

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

	2018				Total
	Less than a month	Between one and three months	More than three months	Without term	
<i>Unrestricted:</i>					
Shares of Fondo de Desarrollo del Mercado de Valores (FDMV)	\$ -	\$ -	\$ -	\$ 159	\$ 159
Bonds	-	-	276	-	276
Certificates	-	-	1,594	-	1,594
CETES	78	133	75	-	286
Ipabonos	-	-	160	-	160
<i>Restricted securities:</i>					
Bonds	-	-	98,095	-	98,095
Certificates	-	2,516	23,669	-	26,185
CETES	-	-	1,936	-	1,936
Ipabonos	921	-	84,542	-	85,463
Bank promissory notes	673	-	-	-	673
Ipabonos	-	-	2	-	2
	<u>\$ 1,672</u>	<u>\$ 2,649</u>	<u>\$ 210,349</u>	<u>\$ 159</u>	<u>\$214,829</u>

Available for sale

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

	2018		
	Less than one year	More than one year	Total
Sovereign debt	\$ -	\$ 2,565	\$ 2,565
Bonds issued by credit institutions	-	435	435
Debentures and other securities	-	4,096	4,096
Equity investments	-	7,268	7,268
	<u>\$ -</u>	<u>\$ 14,364</u>	<u>\$ 14,364</u>

Held-to-maturity:

	2019		
	Less than one year	More than one year	Total
<i>Unrestricted:</i>			
Convertible prides bond	\$ -	\$ 5	\$ 5
Certificates	-	569	569
Segregable certificates	-	4,218	4,218
Sovereign debt	-	226	226
Udibonos	-	50	50
<i>Restricted securities:</i>			
Segregable certificates	-	3,667	3,667
	\$ -	\$ 8,735	\$ 8,735
2018			
	Less than one year	More than one year	Total
<i>Unrestricted:</i>			
Convertible prides bond	\$ -	\$ 5	\$ 5
Certificates	-	198	198
Segregable certificates	-	3,333	3,333
Sovereign debt	-	242	242
Debentures and other securities	-	881	881
Udibonos	-	51	51
<i>Restricted securities:</i>			
Segregable certificates	-	4,705	4,705
	\$ -	\$ 9,415	\$ 9,415

As of December 31, 2019 and 2018, the Institution does not maintain obligations and securities with a maturity of less than one year.

The valuation result from available for sale securities as of December 31, 2019 and 2018 recognized in Other Comprehensive Income within stockholders' equity amounted to \$5 and \$(202), net of deferred income tax, respectively.

For the years ended December 31, 2019 and 2018, net gains from interest income, trading income and valuation gain (loss) from investments securities are as follows:

	2019	2018
Interest income	\$ 2,657	\$ 1,759
Valuation gain	39	311
Trading income	626	92
	\$ 3,322	\$ 2,162

For the years ended December 31, 2019 and 2018, the Institution has not made reclassifications from held to maturity to available for sale, or from trading securities to available for sale.

Issuers over 5% of institution's net capital-

At December 31, 2019 and 2018, investments in non-governmental debt securities of the same issuer and exceeding 5% of the Institution's net capital are analyzed below:

2019					
Issuer	Serie	Number of securities	Annual Average rate	Average term	Amount
FEFA	Various	244,941,153	8.06%	1117	\$ 24,579
IBANOBRA	Various	9,044,171,114	7.27%	7	9,023
SHF	Various	17,150,000	6.29%	231	1,711
PEMEX USD	Various	148,313	5.79%	2,374	2,749
PEMEX EUR	Various	7,000	3.01%	1,499	153
PEMEX GBP	Various	5,000	3.75%	1,828	128

2018					
Issuer	Serie	Number of securities	Annual average rate	Average term	Amount
FEFA	Various	108,386,107	8.33%	2	\$ 10,890

8. REPURCHASE/RESELL AGREEMENTS

At December 31, 2019 and 2018 the “Debtors on repurchase/resell agreements” and “Creditors on repurchase/resell agreements” balances in which the Institution acts as buyer or as seller, are analyzed as follows:

	Debtors on repurchase/resell agreements		Creditors on repurchase/resell agreements	
	2019	2018	2019	2018
Government securities				
Udibonos	\$ -	\$ -	\$ (381)	\$ -
Segregable certificates	484	540	(5,659)	(6,676)
Bonds	10,000	6,898	(210)	-
Fix rate bonds	22,334	1,650	(98,508)	(98,095)
Ipabonos	9,366	5,637	(69,207)	(85,478)
CETES	1,750	2,341	-	(1,936)
Subtotal	\$ 43,934	\$ 17,066	\$ (173,965)	\$ (192,185)

Banking securities

Certificates	5,897	-	(1,496)	(1,495)
Bank promissory notes	-	-	(7,023)	(252)
Subtotal	5,897	-	(8,519)	(1,747)

Other debt securities

Certificates	3,551	-	(17,934)	(24,691)
Subtotal	53,381	17,066	(200,418)	(218,623)

**Collateral sold or pledged
as a guarantee (creditors)****Government securities**

Segregables certificates	(484)	(540)	-	-
Fix rate bonds	(10,000)	(1,650)	-	-
Bonds	(22,334)	(6,898)	-	-
Ipabonos	(9,366)	(5,637)	-	-
CETES	-	(2,341)	-	-

Other debt securities

Certificates	(1,647)	-	-	-
Subtotal	(43,831)	(17,066)	-	-
\$	9,550	\$ -	\$ (200,418)	\$ (218,623)

9. DERIVATIVES

At December 31, 2019 and 2018, the fair value of derivative financial instruments for trading and hedging purposes, recognized under the caption "Derivatives", is analyzed as follows:

	2019 Position		2018 Position	
	Assets	Liabilities	Assets	Liabilities
Trading purposes				
Swaps	\$ 1,870	\$ (1,899)	\$ 8,186	\$ (8,252)
Hedging purposes				
Swaps	\$ 1,461	\$ (5,795)	\$ 1,546	\$ (9,470)

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

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

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

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

	2019	2018
Futures and forward contracts		
<u>Purchases</u>		
Contract value	\$ 7,539	\$ -
Deliverable	\$ (7,557)	\$ -
Valuation	<u>\$ (18)</u>	<u>\$ -</u>

Swaps trading purposes:

	2019			2018		
Interest rate	Contract value	Receivable	Deliverable	Contract value	Receivable	Deliverable
	\$ 147,592	\$ 1,870	\$ 1,899	152,952	8,186	8,252

Swaps hedging purposes:

	2019			2018		
Interest rate	Contract value	Receivable	Deliverable	Contract value	Receivable	Deliverable
	\$ 94,004	\$ 1,461	\$ 5,795	101,368	1,546	9,470

At December 31, 2019 and 2018, hedge effectiveness/ineffectiveness derived from the application of the B-5 criterion "Derivatives and hedging transactions" of the Banking Commission, is detailed below:

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

	2019	2018
Ineffectiveness for:		
Deposit funding hedging	\$ (36)	\$ (42)
Investments hedging	(49)	25
Total	<u>\$ (85)</u>	<u>\$ (17)</u>

At December 31, 2019 and 2018, the Institution has only contracted fair value hedge swaps.

Trading Swaps (with impact in income statement):

	2019	2018
Interest rate	<u>(29)</u>	<u>(66)</u>

The adjustments to the book value arising from interest rate hedges derivative transactions on financial assets and liabilities, due to the application of the criterion B-5 "Derivatives and hedging transactions" of the Banking Commission, at December 31 2019 and 2018, are detailed below:

	2019		2018	
	Asset	Liability	Asset	Liability
Deposit funding hedging	\$ 602	\$ 165	\$ 6,803	\$ (1,035)
Investments hedging	256	(273)	-	-
Loan portfolio hedging	1,303	35	(933)	151
Total	\$ 2,161	\$ (73)	\$ 5,870	\$ (884)

The net gain (loss), for the years ended December 31, 2019 and 2018, recognized in the consolidated income statement derived from the valuation of instruments used for fair value hedging purposes, amounted to \$2,644 and \$(883), respectively. The effect of the gain related to the valuation of the effective hedge portion for the year ended December 31, 2019 and 2018 amounted to \$(2,712) and \$876, respectively.

Use of derivative financial instruments policy management (unaudited)-

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

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

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

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

Processes and levels of authorization -

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

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

- The methodologies for identifying, valuing, measuring and controlling the risks of the new operations, products, and services that the Institution plans to offer to the market.
- The corrective actions proposed by the Integral Risk Management area.
- The assessment of aspects of Integral Risk Management referred to in Article 77 of the Provisions for its presentation to the Board of Directors and the Banking Commission.
- The Integral Risk Management manuals, in accordance with the objectives, guidelines, and policies established by the Board of Directors, referred to in the last paragraph of Article 78 of the Provisions.

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

Independent reviews

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

Generic description of valuation techniques -

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

Valuation methodology –

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

The internal and external sources of liquidity used to meet requirements related to derivative financial instruments are national and international treasury (London Branch).

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

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

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

- Tequila Effect (1994).
- Russian Crisis (1998).

- Twin Towers (2001).
- Mexican Stock Exchange Effect (2002).
- Effect on Real Interest Rate (2004).
- Mortgage Crisis Effect (2008).
- USA Elections effect (2016).

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

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

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

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

- (1) The number of transactions is equal to purchase transactions minus sales. Notional refers to number of contracts: 2,013 of purchase and 2,727 sales.
- (2) Purchasing transactions. Notional in millions of US dollars
- (3) Notional amount traded during the year

During 2018, the number of derivative financial instruments traded was the following:

Instrument	Number of transactions		Notional	
	Trading	Hedging	Trading	Hedging
Futures (1)	47	-	60,815	-
Forwards (Arbitrations) (2)	741	-	36,105	-
Swaps (3)	31	96	14,130	29,522

- (1) The number of transactions is equal to purchase transactions minus sales. Notional refers to number of contracts 30,384 of purchase and 30,431 sales.
- (2) Purchasing transactions. Notional in millions of US dollars.
- (3) Notional amount traded during the year.

Formal documentation of hedges

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

- I. File cover letter.
- II. Authorization of the hedge.
- III. Diagram of the strategy.
- IV. Evidence of prospective tests of hedge effectiveness.
- V. Evidence of execution of the derivative.
- VI. Details of the primary position being hedged.
- VII. Derivative confirmation

Sensitivity analysis

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

- 1) Duration.- There are primarily two types of duration with different meanings:
 - a. Macaulay Duration: It is the weighted average maturity of the current cash flow values where weighting ratios are the time in years up to the payment of the corresponding flow.
 - b. Modified Duration: It is the percentage variation experienced by the price of a bond in light of small variations in the market interest rate.
- 2) Convexity.- It is the variation experienced by the slope of a curve with respect to a dependent variable, i.e., it measures the variation experienced, by the duration when rates change.
- 3) Greeks- Sensitivity measurements for options, except for interest rate options:
 - a. Delta: Price Sensitivity for options at the price of the underlying of the option.
 - b. Theta: Price Sensitivity of options to the time variable.
 - c. Gamma: Third degree price sensitivity of the option to the underlying of the option.
 - d. Vega: Price Sensitivity of the option in response to volatility used for its valuation.
 - e. Rho: Price Sensitivity of the option in response to changes in interest rate.
- 4) Beta- It is the measurement of the systematic risk of a share.

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

10. LOAN PORTFOLIO

(a) Classification of loan portfolio by currency

At December 31, 2019 and 2018, the classification of loans into current and past due by currency (valued in local currency), is analyzed as follows:

	2019			2018		
	Currency		Total	Currency		Total
	Local	Foreign		Local	Foreign	
Current portafolio:						
Business or commercial activity loans	\$ 17,410	\$ 34,419	\$ 51,829	\$ 21,374	\$ 40,298	\$ 61,672
Financial institutions loans	150,739	13,244	163,983	165,859	14,173	180,032

Government entities loans	8,825	449	9,274	17,035	12	17,047
Consumer loans	20	-	20	5	-	5
Mortgage loans	104	-	104	104	-	104
Loans granted as agent of the Federal Government	-	9	9	-	29	29
Subtotal	\$ 177,098	\$ 48,121	\$ 225,219	\$ 204,377	\$ 54,512	\$ 258,889
Past due portfolio:						
Business or commercial activity loans	-	488	488	-	509	509
Financial institutions loans	228	-	228	228	-	228
Consumer loans	6	-	6	2	-	2
Mortgage loans	9	-	9	4	-	4
Subtotal	243	488	731	234	509	743
Total loan portfolio	\$ 177,341	\$ 48,609	\$ 225,950	\$ 204,611	\$ 55,021	\$ 259,632

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

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

At December 31 2019 and 2018, the Institution has no loan portfolio subject to support program promoted by the Federal Government.

(b) Classification of loan portfolio by economic sector

At December 31, 2019 and 2018, credit risk, classified by economic sector and the percentage of concentration are analyzed as follows:

	2019		2018	
	Amount	%	Amount	%
Federal Government	\$ 15	-	\$ 41	0.02
Decentralized agencies and state-owned enterprises	6,821	3	12,530	4.83
State productive enterprises	2,447	1	4,505	1.74
Commercial banks	65,041	29	66,050	25.44
Other public financial brokers	1,004	1	1,055	0.41
Other private financial brokers	98,167	43	113,155	43.58
Domestic companies	52,318	23	62,181	23.94
Private parties	137	-	115	0.04
Total	\$ 225,950	100	\$ 259,632	100

(c) Additional loan portfolio information

Annual weighted lending rates (unaudited):

During 2019 and 2018, annual weighted rates not audited, were as follows:

Type	2019	2018
Commercial loans *	7.83%	9.62%
Consumer	4.50%	4.81%
Mortgages	5.09%	4.96%
Excluded	2.26%	2.70%

* Includes commercial, financial and government entities loans.

Restructured loans:

At December 31, 2019 and 2018, restructured loans are analyzed as follows:

2019	2019			2018		
	Current portfolio	Past due portfolio	Total	Current portfolio	Past due portfolio	Total
Commercial loans	\$ 9,031	\$ 487	\$ 9,518	\$ 4,962	\$ 507	\$ 5,469
Financial entities	2	-	2	92	-	92
Mortgage	1	-	1	1	-	1
Total	\$ 9,034	\$ 487	\$ 9,521	\$ 5,055	\$ 507	\$ 5,562

For the years ended December 31, 2019 and 2018, interests arising from restructured loans amounted to \$313 and \$159, respectively.

At December 31, 2019 and 2018, no renewed loans were recorded.

Past-due portfolio:

An analysis of past-due loans at December 31, 2019 and 2018, from the date the loans were considered past due are summarized as follows:

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

2018							
Commercial *	\$	737	\$	-	\$	-	\$ 737
Consumer		1		-		-	2
Mortgage		2		-		-	4
	\$	740	\$	-	\$	-	\$ 743

* Includes commercial, financial and government entities loans.

The activity in the past-due loan portfolio for the years ended December 31, 2019 and 2018, is summarized below:

Activity	2019		2018	
Balance at beginning of year	\$	743	\$	1,867
Settlements		(4)		(349)
Write-offs		-		(1,284)
Transfer from performing to nonperforming portfolio		12		443
Foreign exchange fluctuation		(20)		66
Balance at end of year	\$	731	\$	743

At December 31, 2019 and 2018 the past-due loan portfolio is comprised of 54 and 37 former employees respectively and 2 companies, in both years, which are in a judicial or extra-judicial process.

At December 31, 2019 and 2018, the interests on the past due loan portfolio not recognized in net income amounted to \$73 and \$20, respectively, these are recorded in memorandum accounts.

For the years ended December 31, 2019 and 2018, the Institution recorded write-offs from those past due loans that had been fully reserved, for a total of \$0 and \$1,284, respectively.

For the years ended December 31, 2019 and 2018, the Institution had no recoveries from written off loans.

Impaired loan portfolio:

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

At December 31, 2019 and 2018, the impaired portfolio is summarized below:

	2019					2018				
	Risk grade			Allowance recorded	Risk grade			Allowance recorded		
	D	E	Total		D	E	Total			
Current	\$ 157	\$ -	\$ 157	\$ 70	\$ 180	\$ -	\$ 180	\$ 81		
Past-due	-	228	228	107	-	737	737	616		
Total	\$ 157	\$ 228	\$ 385	\$ 177	\$ 180	\$ 737	\$ 917	\$ 697		

Interest and commissions from the loans portfolio at December 31, 2019 and 2018, are integrated as follows:

	2019			2018		
	Interest	Commissions	Total	Interest	Commissions	Total
Business or commercial activity loans	\$ 4,376	\$ 60	\$ 4,436	\$ 3,782	\$ 77	\$ 3,859
Financial institutions loans	14,015	49	14,064	12,749	55	12,804
Government entities loans	1,367	-	1,367	1,330	-	1,330
Mortgage loans	5	-	5	4	-	4
Loans granted as Federal Government Financial agent	1	-	1	1	-	1
Total	\$ 19,764	\$ 109	\$ 19,873	\$ 17,866	\$ 132	\$ 17,998

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

Adjustment from valuation of financial asset hedging:

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

At December 31, 2019 and 2018, the adjustment to the carrying value of the loan portfolio from the gain or loss recognized in results of operations for the year is presented under the caption "Valuation adjustment from hedging of financial assets" in the consolidated balance sheet for \$2,161 and \$5,870, respectively.

(d) Allowance for loan losses

At December 31, 2019 and 2018, as a result of the application of the rating methodology, the probability of default and loss given default by type of loan portfolio, obtained as weighted average (unaudited) of the exposure to default, are as follows:

Portfolio type	Probability of default	Loss given default	Exposure to default
2019			
Commercial	2.18%	44.88%	\$ 312,703
Mortgage	10.97%	26.00%	112
Consumer	29.26%	83.21%	25
Exempt	-	-	\$ 9
2018			
Commercial	2.18%	44.89%	\$ 340,859
Mortgage	7.86%	20.76%	108
Consumer	37.85%	83.91%	7
Exempt	-	-	\$ 29

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

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

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

Credit rated portfolio

Grade of risk	Business or commercial	Financial institutions	Government entities	Consumer	Mortgage	Total
A-1	\$ 107,706	\$ 42,315	\$ 9,274	\$ -	\$ 74	\$ 159,369
A-2	7,956	58,539	-	7	9	66,511
B-1	3,249	55,880	-	1	-	59,130
B-2	15,242	5,343	-	3	8	20,596
B3	1,505	1,795	-	4	9	3,313
C-1	2,568	110	-	1	1	2,680
C-2	141	-	-	2	5	148
D	362	-	-	2	6	370
E	489	228	-	6	1	724
Total	\$ 139,218	\$ 164,210	\$ 9,274	\$ 26	\$ 113	\$ 312,841
Exempted portfolio:						
Federal Government						9
Total portfolio						\$ 312,850

Allowance for loan losses

Grade of Risk	Business or commercial	Financial Institutions	Government Entities	Consumer	Mortgage	Total
A-1	\$ 444	\$ 282	\$ 46	\$ -	\$ -	\$ 772
A-2	94	736	-	-	-	830
B-1	48	942	-	-	-	990
B-2	92	115	-	-	-	207
B3	32	54	-	-	-	86
C-1	157	8	-	-	-	165
C-2	15	-	-	1	-	16
D	78	-	-	1	2	81
E	488	107	-	5	1	601
Total	\$ 1,448	\$ 2,244	\$ 46	\$ 7	\$ 3	\$ 3,748
Exempted portfolio:						
Additional reserves recognized by the Banking Commission						700
Allowance for assignment of lines of guarantees						3,505
Total						\$ 7,953

At December 31, 2018, the credit rated loan portfolio and the allowance for loan losses, are analyzed as follows:

Credit rated portfolio

Grade of Risk	Business or commercial	Financial Institutions	Government entities	Consumer	Mortgage	Total
A-1	\$ 132,302	\$ 70,297	\$ 17,047	\$ 1	\$ 72	\$ 219,719
A-2	6,135	39,277	-	1	10	45,423
B-1	1,429	44,045	-	1	3	45,478
B-2	1,826	4,290	-	-	7	6,123
B3	1,062	22,075	-	1	5	23,143
C-1	43	44	-	-	4	91
C-2	19	5	-	-	3	27
D	223	-	-	1	3	227
E	513	227	-	2	1	743
Total	\$ 143,552	\$ 180,260	\$ 17,047	\$ 7	\$ 108	\$ 340,974
Exempted portfolio:						
Federal Government						29
Total portfolio						\$ 341,003

Allowance for loan losses

Grade of risk	Business or commercial	Financial institutions	Government entities	Consumer	Mortgage	Total
A-1	\$ 654	\$ 479	\$ 85	\$ -	\$ -	\$ 1,218
A-2	65	514	-	-	-	579
B-1	25	745	-	-	-	770
B-2	45	101	-	-	-	146
B3	32	606	-	-	-	638
C-1	3	2	-	-	-	5
C-2	2	1	-	-	-	3
D	95	-	-	-	-	95
E	509	107	-	2	2	620
Total	\$ 1,430	\$ 2,555	\$ 85	\$ 2	\$ 2	\$ 4,074
Exempted portfolio:						
Additional reserves recognized by the Banking Commission						332
Allowance for assignment of lines of guarantees						2,673
Total						\$ 7,079

The activity in the allowance for loan losses for the years ended December 31, 2019 and 2018, is summarized as follows:

	2019		2018	
Balance at beginning of year	\$	7,079	\$	7,016
Provision charged to income for the year		2,710		2,814
Provisions, write-offs and others		-		(1,289)
Allowance cancellation		(1,797)		(1,469)
Exchange rate fluctuations		(39)		7
Balance at end of year	\$	7,953	\$	7,079

11. OTHER ACCOUNTS RECEIVABLE, NET

At December 31, 2019 and 2018, other accounts receivable, are shown below:

	2019		2018	
Loans to Institution's personnel	\$	2,267	\$	2,912
Other receivables		1,446		1,045
Receivables for fees on current trading activities		92		96
Payments receivable on swap trades		4,492		12,360
		8,297		16,413
Allowance for write-offs of other receivables		(1,430)		(957)
Total	\$	6,867	\$	15,456

12. FORECLOSED ASSETS

At December 31, 2019 and 2018, foreclosed assets are analyzed as follows:

	2019		2018	
Property	\$	29	\$	30
Furniture, securities and foreclosed rights		20		20
		49		50
Allowances for impairment		(49)		(47)
	\$	-	\$	3

The activity of the allowance for impairment for the years ended December 31, 2019 and 2018 is analyzed as follows:

	2019		2018	
Balance at beginning of year	\$	(47)	\$	(56)
Provisions on sale of foreclosed assets and write-offs		(2)		9
Balance at end of year	\$	(49)	\$	(47)

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

13. PROPERTY AND EQUIPEMENT

Property and equipment at December 31, 2019 and 2018, are analyzed as follows:

	2019	2018
Land	\$ 491	\$ 8
Property	1,810	2,231
Furniture and equipment	240	240
Computer equipment	39	36
	2,580	2,515
Less – Accumulated depreciation	(1,097)	(1,063)
	\$ 1,483	\$ 1,452

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

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

Depreciation charged to income for the years ended December 31, 2019 and 2018, amounted to \$38 and \$34, respectively.

For the years ended December 31, 2019 and 2018, there was no effect from impairment of property, leasehold improvements and adaptations.

As at December 31, 2019 and 2018, the percentages of depreciation applied by our main subsidiary, Plaza Insurgentes Sur, S. A. de C. V., which provides the Institution with furniture and real property lease services, are as follows:

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

14. PERMANENT INVESTMENTS

At December 31, 2019 and 2018, the shares in permanent investments, are integrated as follows:

	2019	2018
Corporación Andina de Fomento	\$ 2,482	\$ 2,576
Shares of other entities	365	295
	2,847	2,871
Investments in subsidiary companies	31	29
Total	\$ 2,878	\$ 2,900

At December 31, 2019 and 2018, the other permanent investments are integrated as follows:

	2019		2018	
Fideicomiso Asistencia Técnica en Programas de Financiamiento PYME	\$	11	\$	10
Fideicomiso Patronato del Centro de Diseño de México		11		12
Fideicomiso Capital Emprendedor		4		4
Total	\$	26	\$	26

The activity in the permanent investments and other permanent investments at December 31, 2019 and 2018, is summarized as follows:

	2019		2018	
Balance at beginning of year	\$	2,926	\$	2,868
Equity method in the results of unconsolidated subsidiaries		30		15
Exchange translation		(105)		-
Investments acquisition		84		43
Investments disposals		(31)		-
Balance at end of year	\$	2,904	\$	2,926

15. DEPOSIT FUNDING

At December 31, 2019 and 2018, the deposit-funding caption is analyzed as follows:

	2019			2018		
	Currency		Total	Currency		Total
	Domestic	Foreign		Domestic	Foreign	
Time deposits:						
Money market	\$ 140,537	\$ 4,904	\$ 145,441	\$ 140,093	\$ 3,719	\$ 143,812
Debt securities issued:						
Certificates	65,817	-	65,817	60,439	-	60,439
Bank bonds	-	33,581	33,581	-	44,774	44,774
Securities notes	-	13,826	13,826	-	14,358	14,358
	65,817	47,407	113,224	60,439	59,132	119,571
Total deposit funding	\$ 206,354	\$ 52,311	\$ 258,665	\$ 200,532	\$ 62,851	\$ 263,383

At December 31, 2019 and 2018, time deposits from the money market according to their maturity are integrated as follows:

	2019		2018	
Less than one year	\$	139,182	\$	137,992
Between one and five years		5,153		5,153
		144,335		143,145
Accrued unpaid interest		1,106		667
	\$	145,441	\$	143,812

At December 31, 2019 and 2018, the unaudited average weighted interest rates and average terms in days on time deposits from money market are as follows:

Time deposits from money market

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

Instrument	2018		Amount
	Annual average rate	Average term in days	
Stock certificates	7.99	2,780	\$ 5,153
Bank promissory notes	8.27	57	134,275
Deposit certificates in foreign currency (valued)	1.62	9	3,717
			143,145
Accrued interest			667
			\$ 143,812

16. DEBT SECURITIES ISSUED IN THE COUNTRY

December 31, 2019 and 2018, the Institution has issued stock certificates with par value of one hundred pesos each, under the Institution's financial program authorized by the Ministry of Finance, as shown below:

Issuance date	Maturity	Securities millions	Par value (pesos)	Interest rate	2019		2018	
Cebures settled in INDEVAL								
03/08/2012	22/07/2022	20	100	5.69	\$ 2,000	\$	2,000	
10/12/2012	22/07/2022	20	100	5.69	2,000		2,000	
22/11/2013	08/03/2024	30	100	6.55	3,000		3,000	
14/03/2014	08/03/2024	47.5	100	6.55	4,750		4,750	
06/06/2014	08/03/2024	40	100	6.55	4,000		4,000	
26/09/2014	08/03/2024	32.5	100	6.55	3,250		3,250	
17/04/2015	07/03/2025	60	100	6.15	6,000		6,000	
24/08/2015	07/03/2025	40	100	6.15	4,000		4,000	
10/04/2017	03/04/2020	47.5	100	8.35	4,750		4,750	
12/04/2017	25/09/2026	12.5	100	6.20	1,250		1,250	
27/04/2018	23/04/2021	45	100	8.26	4,500		4,500	

02/05/2018	25/09/2026	25	100	6.20	2,500	2,500
15/06/2019	05/12/2025	79	100	5.60	7,900	-
Premium or discount on placement					(377)	(361)
Accrued interest payable					884	678
Subtotal					\$ 50,407	\$ 42,317

Issuance date	Maturity	Securities millions	Par value (pesos)	Interest rate	2019	2018
Cebures settled in Euroclear and Clearstream						
25/04/2016	17/04/2019	10	100	8.53	-	1,000
27/04/2016	25/09/2026	50	100	6.2	5,000	5,000
21/10/2016	17/04/2019	18	100	8.53	-	1,800
25/10/2016	25/09/2026	42	100	6.2	4,200	4,200
Premium or discount on placement					(82)	(79)
Accrued interest payable					220	140
Subtotal					9,338	12,061
Green bond denominated in domestic currency						
02/09/2016	01/09/2023	20	100	6.05	2,000	2,000
Accrued interest payable					59	39
Subtotal					2,059	2,039
Social bond						
21/07/2017	15/07/2022	40	100	8.32	4,000	4,000
Accrued interest payable					13	22
Subtotal					4,013	4,022
Total					\$ 65,817	\$ 60,439

Stock certificates

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

Green bond

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

Social bonds

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

Valuation adjustments from financial liabilities hedging

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

At December 31, 2019 and 2018, the loss (gain) recognized in results of operations for the year is presented under the caption "Valuation adjustment from hedging of financial liabilities" in the consolidated balance sheet for \$73 and \$884, respectively.

17. CREDIT SECURITIES ISSUED ABROAD

Bank bonds

At December 31, 2019 and 2018, the bank bonds balance amounts to \$33,581 and \$44,774, respectively. The current balances of securities placed by the Institution abroad, as shown below:

2019						
Currency	Securities	Balance in foreign currency in millions	Interest	% Average rate	Balance in local currency	Term
US Dollars						
	51	1,648	6	2.2008	\$ 31,204	Less than one year
	5	125	7	3.7751	2,377	Over one year
					\$ 33,581	
2018						
Currency	Securities	Balance in foreign currency in millions	Interest	% Average rate	Balance in local currency	Term
US Dollars						
	73	2,145	141	2.2630	\$ 42,312	Less than one year
	5	125	7	2.9445	2,462	Over one year
					\$ 44,774	

Stock notes:

At December 31, 2019 and 2018, the current balance of this caption for \$13,826 and \$14,358, respectively is integrated as follows:

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

2018					
Currency	Balance in foreign currency (millions)	% Average Rate	Balance in local currency	Term	
US dollars	500	3.375	\$ 9,826	5 years	
Japanese Yen	10,000	0.78	1,791	5 years	
Japanese Yen	15,000	0.66	2,686	5 years	
Premium or discount on placement			(6)		
Accrued interest			61		
			\$ 14,358		

18. BANK AND OTHER BORROWINGS

At December 31, 2019 and 2018, bank and other borrowings are comprised mainly for credits from foreign financial institutions at current market rates, as follows:

	2019	2018
Multinational and governmental agencies:		
World Bank	\$ 943	\$ 983
Inter-American Development Bank	6,423	6,907
Others	5,696	5,954
	13,062	13,844
Banking institutions	11,302	6,927
Other borrowings	8,669	10,328
Accrued interest	49	36
	20,020	17,291
	\$ 33,082	\$ 31,135

At December 31, 2019 and 2018, maturity term less than one year amount to \$19,988 and \$18,743, respectively.

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

Financial agency	Average rate	Average term to maturity (residual)	Millions in Foreign currency	Local currency
Due on demand				
Local currency	7.16%	2 days	8,669	\$ 8,669
Total				\$ 8,669
Short term				
US Dollars:				
Commercial banking	2.0627%	295 days	275	\$ 5,171
NF BID Cclip 2226 oc-Me Desarrollo	2.9300%	365 days	5	94
NF BID Cclip 2843 oc Me prog línea				
Cred Condicional	2.9300%	365 days	5	94
Instituto de Crédito Oficial	1.3333%	365 days	1	19
Corporación Andina de Fomento	2.1526%	20 days	300	5,659
NF BID Cclip 3237 OC- Me Prog				
financiamiento Impulso				
cogeneración	2.9300%	365 days	2.5	47
European Investment Bank	2.6846%	365 days	5.22	109
Euros:				
Commercial banking	1.3190%	365 days	3	68
Financial agent				
Euros:				
Inter-American Development				
Bank Washington D.C	3.00%	103 days	-	9
Interest			3	49
Total				\$ 11,319

Financial agency	Average rate	Average term to maturity (residual)	Millions in Foreign currency	Local currency
Long term				
US dollars:				
Commercial banking	1.7652%	5 years /6 months	213	\$ 4,025
Instituto de Crédito oficial ICO	1.3333%	2 years /3months	1	19

NF BID Cclip 2226 oc Me Desarrollo	2.9300%	15 years /5months	72	1,367
NF ctf BIRF 98062 Programa de sustitución de electrodomésticos 2631 tc Me Programa de Financiamiento de energías renovables	0.7500%	10 years /8 months	50	943
921,650NF BID Cclip 2843 oc Me prog línea	0.7500%	12 years /6 months	70	1,320
NF BID 3237 oc-Me programa financiamiento impulso cogeneración	2.9300%	18 years /4 months	92	1,651
European Investment Bank	2.6846%	20 years /5 months	97	1,840
		365 days	93	1,750
Euros:				
Commercial banking	1.3190%	3 years /10 months	8	179
Total				\$ 13,094

At December 31, 2018 bank and other borrowings maturity dates are integrated as follows:

Financial Agency	Average rate	Average term to maturity (residual)	Millions in Foreign currency	Local currency
Due on demand				
Local currency	8.1500%	2 days	10,328	\$ 10,328
Total				\$ 10,328
Short-term				
US Dollars:				
Commercial banking	2.3970%	327 days	111	\$ 2,178
NF BID Cclip 2226 oc Me Desarrollo	3.4200%	365 days	5	98
NF BID Cclip 2843 oc Me prog línea				
Cred Condicional	3.4200%	365 days	5	98
Instituto de Crédito Oficial	1.5000%	365 days	1	20
Corporación Andina de Fomento	2.7455%	39 days	300	5,896
Euros:				
Commercial banking	1.2433%	365 days	3	70
Financial agent				
Euros:				
Inter-American Development Bank Washington DC	3.00%	365 days	-	19
Interest			1	36
Total				\$ 18,743

Financial Agency	Average rate	Average term to maturity (residual)	Millions in Foreign currency	Local currency
Long term				
US dollars:				
	2.4296%	7 years	225	\$ 4,417
Commercial banking		/10 months		
Instituto Comercial de Crédito	1.3333%	2 years	2	38
		/3 months		
NF BID Cclip 2226 oc Me Desarrollo	3.4200%	15 years	78	1,523
		/5 months		
NF ctf BIRF 98062 Programa de sustitución de electrodomésticos	0.7500%	10 years	50	983
2631 tc Me Programa de financiamiento de energías renovables	0.7500%	/8 months		
		12 years		
NF BID Cclip 2843 oc Me prog linea de créditos	0.7500%	/6 months	70	1,376
		18 years		
NF BID 3237 oc-Me Programa financiamiento impulso cogeneración	3.4200%	/4 months	93	1,818
		20 years		
		/5 months	100	1,965
Euros:				
Commercial banking	1.3190%	3 years	12	262
		/10 months		
Financial agent				
Euros:				
Inter-American Development Bank Washington DC	3.0000%	1 year	-	10
		/3 months		
Total			\$	12,392

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

	2019	2018
Central Bank	\$ 201	\$ 209
Kreditanstalt Fur Wiederaufbau Frankfurt	682	724
Banco Interamericano de Desarrollo	1,619	1,686
Total	\$ 2,502	\$ 2,619

19. OTHER ACCOUNTS PAYABLE

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

	2019	2018
Payables for cash collateral received	\$ 319	\$ 1,634
Sundry creditors	3,345	775
Employee benefits payable	8	7
Income taxes payable	101	436

Employee statutory profit sharing payable	-	332
Clearing accounts	7,405	20,358
Other accounts payable	204	155
Guarantee deposits	3	3
	Total \$	\$ 23,700
	11,385	

20. EMPLOYEES' BENEFITS

a) Defined contribution retirement plan -

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

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

The amount of the contributions for the year ended December 31, 2019, amounted to \$13 and \$41, respectively.

At December 31, 2019 and 2018, the defined contribution plan assets amounts to \$240 and \$298, respectively, and are invested in an irrevocable trust incorporated in the Institution.

b) Defined benefits retirement plan -

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

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

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

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

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

The net periodic cost for the years ended December 31, 2019 and 2018, amounts to \$898 and \$989, respectively, including the effect of other post-retirement benefits. The estimated net periodic cost for the year 2020 amounts to \$1,035.

At December 31, 2019 and 2018, the plan assets of the fund for labor obligations amounted to \$7,139 and \$6,773, respectively, and is invested in an irrevocable trust incorporated in the Institution. The net periodic cost recognized in the unconsolidated statement of income of the Institution amounted to \$198 and \$144, respectively.

At December 31, 2019 and 2018, plan assets related to "other post-retirement benefits" amounts to \$ 12,626 and \$11,327, respectively. The net periodic cost recognized in the unconsolidated statement of income of the Institution amounted to \$700 and \$845, respectively.

At December 31, 2019 and 2018, the assets of the plan of the Fund for labor obligations, is invested in the following securities:

Classification of securities in the Fund and its concentration.	2019	2018
Government securities	48.96%	39.82%
Banking securities	1.96%	2.02%
Other debt securities	49.08%	58.16%
Total	100.00%	100.00%

At December 31, 2019, from the total assets of the plan, 37.94% in Federal Government Development Bonds (27.12% in December 2018); 11.02% in Bonds of the Institute for the Protection of Bank Savings (10.59% in December 2018); 1.96% in term investments with performance payable at maturity and investment companies of securities issued by credit institutions (2.02% in December 2018); 49.08% in Certificates and investment companies, securities issued by credit institutions and private sector companies with high credit rating (58.16% in December 2018).

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

2019				Special loan for savings (SLS) and financial credit cost
Concept	Pension	Seniority Premium	Other retirement benefits	
Accounting policy for the recognition of losses and gains				
	Deferred amortization			
General benefits description	According to general employment conditions			
Obligation for acquired benefits	\$ 7,605	\$ 3	\$ 11,098	\$ 3,803

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

2019

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

2019

Concept	Pension	Seniority premium	Other retirement benefits	Financial credit cost
Net (liability) assets for defined benefits at the beginning of year	\$ (110)	\$ (4)	\$ 162	\$ (101)
Net periodic cost	196	2	572	128
Contributions	(196)	(2)	(572)	(128)
Remeasurements of liabilities or (assets) recognized in OCI	180	6	2,099	173
Net (liability)/ asset for defined benefits	\$ 70	\$ 2	\$ 2,261	\$ 72

Net periodic cost

Labor cost	\$ 11	\$ 2	\$ 114	\$ 14
Financial cost	111	-	50	41
Return on assets	24	-	167	28
Recycling of remeasurements	50	-	241	45
Net period cost	\$ 196	\$ 2	\$ 572	\$ 128

Net liability (asset) reameasurements for defined benefits

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

2019

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

The summary of the actuarial calculations at December 31, 2018, is as follows:

2018

Concept	Pension	Seniority Premium	Other retirement benefits	Financial credit cost
Accounting policy for the recognition of losses and gains				
General benefits description	Deferred amortization			
	According to general employment conditions			
Obligation for acquired benefits	\$ 6,899	\$ 8	\$ 7,932	\$ 3,244

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

2018

Concept	Pension	Seniority premium	Other Retirement benefits	Financial credit cost
Defined benefits obligations	\$ (7,262)	\$ (27)	\$ (9,608)	\$ (3,672)
Plan assets at fair value	6,628	28	7,917	3,257
Financial situation of the obligation	(634)	1	(1,691)	(415)
Remeasurements pending recognition	744	3	1,529	516
Net (liability) asset for defined benefits	\$ 110	\$ 4	\$ (162)	\$ 101

2018

Concept	Pension	Seniority premium	Other retirement benefits	Financial credit cost
Net (liability) assets for defined at the beginning of year	\$ (360)	\$ (2)	\$ 604	\$ 64
Net periodic cost	142	2	662	183
Contributions	(142)	(2)	(662)	(183)
Remeasurements of liabilities or (assets) recognized in OCI	250	(2)	(442)	(165)
Net (liability)/ asset for defined benefits	\$ (110)	\$ (4)	\$ 162	\$ (101)
Net periodic cost				
Labor cost	\$ 26	\$ 2	\$ 150	\$ 34
Financial cost	492	2	674	262
Return on assets	(460)	(2)	(529)	(221)
Recycling of remeasurements	84	-	367	108
Net period cost	\$ 142	\$ 2	\$ 662	\$ 183

Net liability (asset) reameasurements for defined benefits

Defined benefits obligations	\$ 7,262	\$ 27	\$ 9,608	\$ 3,672
Estimated defined benefits obligation	(7,286)	(29)	(9,786)	(3,928)
Actuarial (gains) / losses on obligations	\$ (24)	\$ (2)	\$ (178)	\$ (256)

2018

Concept	Pensión	Seniority premium	Other Retirement benefits	Financial Credit Cost
Fair value of the plan assets	\$ (6,628)	\$ 29	\$ 7,917	\$ (3,257)
Estimated value of plan assets	6,845	29	(7,745)	3,359
Actuarial (gains) / losses on obligations	217	-	172	102
Remeasurements generated in the year to be recognized in OCI	\$ 193	\$ (2)	\$ (350)	\$ (154)
Average remaining working life	6.29	7.29	6.37	6.29

Main hypothesis used:

	2019	2018
Discount rate	7.42%	8.48%
Increase in wage rate	4.00%	4.15%
Increase of minimum wage rate	4.00%	4.15%
Medical inflation rate	10.75%	10.50%
Long term inflation rate	3.50%	3.65%

Financial position

At December 31, 2019 and 2018, the financial position is as follows:

	Retirement pension	Seniority Plan	Medical service, Fund insurance, premium sport club	Other retirement benefits SLS and financial credit cost
2019				
Defined benefits obligations	\$ (7,784)	\$ (21)	\$ (12,742)	\$ (4,050)
Fair value of the plan assets	7,054	16	9,116	3,521
Obligation's financial position	(730)	(5)	(3,626)	(529)
Remeasurements pending recognition	660	3	1,365	457
Net (liability) / asset for defined benefits	\$ (70)	\$ (2)	\$ (2,261)	\$ (72)
2018				
Defined benefits obligations	\$ (7,262)	\$ (27)	\$ (9,608)	\$ (3,672)
Fair value of the plan assets	6,628	28	7,917	3,257
Obligation's financial position	(634)	1	(1,691)	(415)
Remeasurements pending recognition	744	3	1,529	516
Net (liability) / asset for defined benefits	\$ 110	\$ 4	\$ (162)	\$ 101

OCI Reserve reconciliation

At December 31, 2019 and 2018, the reserve and OCI reconciliation are as follows:

	Retiremet pension	Seniority plan	Medical service Savings fund insurance Premium sport club	Other retirement benefits (SLS) and financial Credit cost
2019				
Reserve balance at beginning of year	\$ (110)	\$ (4)	\$ 162	\$ (101)
Net periodic cost	196	2	572	128
Contributions	(196)	(2)	(572)	(128)
Remeasurements liabilities or (assets) recognized in OCI	180	6	2,099	173
Balance at end of year	\$ 70	\$ 2	\$ 2,261	\$ 72
2018				
Reserve balance at beginning of year	\$ (360)	\$ (2)	\$ 604	\$ 64
Net periodic cost	142	2	662	183
Contributions	(142)	(2)	(662)	(183)
Remeasurements liabilities or (assets) recognized in OCI	250	(2)	(442)	(165)
Balance at end of year	\$ (110)	\$ (4)	\$ 162	\$ (101)

Balance at end of year recorded in OCI	(110)	(4)	162	(101)
Net liabilities (assets) due to defined benefits at end of year	\$ (110)	\$ (4)	\$ 162	\$ (101)

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

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

The accumulated balance of Plan losses not recognized, amounts to \$(2,485). The initial effects of the application of MFRS D-3 involve the recognition of 20% of the accumulated balance plan losses of \$(497), amount which will be recognized, in the caption of "Remeasurements for employee's defined benefits" in earned capital. The remaining amount of \$(1,988), will be applied in the subsequent years, within a maximum period of 5 years.

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

Income Tax (IT) Law effective as of January 1, 2014 establishes an IT rate of 30% for 2014 and later years. The current ESPS rate is 10%, for the years 2019 and 2018.

At December 31, 2019 and 2018, current IT and ESPS expense is as follows:

	2019		2018	
	IT	ESPS	IT	ESPS
Current IT and ESPS:				
Institution	\$ -	\$ -	\$ (319)	\$ (332)
Consolidated trusts	(813)	-	(602)	-
Management funds	(6)	-	(2)	-
Plaza Insurgentes	(19)	-	(23)	-
Current IT and ESPS	\$ (838)	\$ -	\$ (946)	\$ (332)
Deferred IT and ESPS:				
Institution	\$ 331	\$ (11)	\$ 37	\$ 6
Consolidated trusts	423	140	268	90
CMIC	10	-	94	-
Management trusts	-	-	(2)	-
Plaza Insurgentes	(8)	-	3	-
Deferred IT and ESPS	756	129	400	96
	\$ (82)	\$ 129	\$ (546)	\$ (236)

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

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

Deferred IT and ESPS:

The analysis of the effective rate of the Institution without its subsidiaries at December 31, 2019 and 2018, is analyzed as follows:

2019	Tax Base	Tax at 30%	Effective rate	ESPS at 10%
Income before taxes	\$ (4,517)	\$ 1,355	(30%)	\$ 452
Allocation to current tax:				
Adjustment for inflation effects	(382)	115	(3%)	38
Valuation of financial instruments	82	(25)	1%	(8)
Non-deductible expenses	117	(35)	1%	(11)
Allowance for loan losses	123	(37)	1%	(12)
Deferred ESPS	(129)	39	(1%)	13
Deduction of paid ESPS	(332)	100	(2%)	-
Others, net	346	(105)	2%	(35)
Current tax	(4,692)	-	(31%)	-
Tax effect of consolidated Trusts		-		-
Income tax and ESPS in consolidated results		-		-
2019	Tax Base	Tax at 30%	Effective rate	ESPS at 10%
Allocation to deferred tax: (IT 30% and ESPS 10%):				
Valuation of financial instruments	\$ 28	\$ (8)	0%	\$ (3)
Provisions and others	297	(89)	2%	4
Allowance for loan losses to be deducted	(28)	8	0%	3
Interest on derivative financial instruments (Swaps)	144	(43)	1%	(14)
Tax loss	(1,554)	466	(10%)	-
Others	11	(3)	0%	(1)
Deferred tax	\$ (1,102)	\$ 331	(7%)	\$ (11)
Deferred tax effect of Consolidated Trusts ⁽¹⁾		423		140
Deferred income tax and ESPS		\$ 754		\$ 129

The following is an analysis of the effective tax rate of the Institution without subsidiaries for the fiscal year ended December 31, 2018:

2018	Tax Base	Tax at 30%	Effective rate	ESPS at 10%
Result of the operation	\$ 841	\$ (252)	(30%)	\$ (84)
Allocation to current tax:				
Adjustment for inflation effects	(297)	89	11%	30
Valuation of financial instruments	45	(14)	(2%)	(5)
Non-deductible expenses	478	(143)	(17%)	(46)
Allowance for loan losses	410	(123)	(15%)	(41)
Deferred ESPS	(96)	29	4%	10
Deduction of paid ESPS	(274)	82	10%	-
Others, net	(225)	67	8%	22
Current tax	\$ 882	\$ (265)	(31%)	\$ (114)
Tax effect of consolidated trusts ⁽¹⁾		(54)		(218)
Income tax and ESPS in consolidated results		\$ (319)		\$ (332)

	Tax Base	Tax at 30%	Effective Rate	ESPS at 10%
Allocation to deferred tax: (IT 30% and ESPS 10%):				
Valuation of financial instruments	\$ (149)	\$ 45	5%	\$ 15
Provisions and others	(82)	25	3%	2
Allowance for loan losses to be deducted	(444)	133	16%	44
Interest on derivative financial instruments (Swaps)	211	(63)	(7%)	(21)
Others	342	(103)	(12%)	(34)
Deferred tax	\$ (122)	\$ 37	5%	\$ 6
Deferred tax effect of Consolidated Trusts ⁽¹⁾		268		90
Current tax		\$ 305		\$ 96

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

The tax effects of tax on earnings and ESPS of temporary differences that generate significant portions of deferred tax assets and ESPS as at December 31, 2019 and 2018 of the Institution without subsidiaries are summarized below:

	2019		2018	
	IT	ESPS	IT	ESPS
Deferred asset (liability):				
Valuation of financial instruments	\$ (568)	\$ (189)	\$ (364)	\$ (121)
Provisions and others	40	13	118	6
Allowance for loan losses to be deducted	2,706	902	2,276	759
Interest on derivative financial instruments (Swaps)	(337)	(112)	(294)	(98)
Tax loss	466	-	-	-
Defined benefit measurements	721	240	(16)	(5)
Others	5	2	18	6
Deferred tax	\$ 3,033	\$ 856	\$ 1,738	\$ 547

Other considerations:

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

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

For the years ended December 31, 2019 and 2018, a base was generated for employee profit sharing of \$0 and \$3,323, respectively, which differs from the Income Tax base of every year, due to the payment of ESPS made and the amount of other benefits paid to employees that are not totally deductible for income tax purposes.

Tax loss carryforwards

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

A tax loss was incurred in tax year 2019, which was restated and amounts to \$1,588 as at December 31, 2019.

22. STOCKHOLDERS' EQUITY

Capital stock

At December 31, 2019, the Institution's capital stock is comprised as follows:

	<u>Series "A"</u>		Nominal		Total
	Capital contribution		value		
	Series "A"	Series "B"	(pesos)	Amount	
Subscribed capital	31,548,000	16,252,000	\$ 50	\$ 1,577	\$ 813
Unissued Capital	(2,625,815)	(1,352,691)	50	(131)	(68)
Suscribed and paid capital	28,922,185	14,899,309	\$ 50	\$ 1,446	\$ 745
Increase from restatement					7,011
Total stockholder's equity					\$ 9,202

The Institution's capital stock will be represented in 66% by "A" Series and 34% by "B" Series. The "A" Series may only be subscribed by the Federal Government and "B" Series by Federal Government, Mexican individuals or companies. At December 31, 2019 and 2018, the Federal Government owns 66% of the "A" series in both years, and 33.94% of "B" series, respectively.

Contributions for future capital stock increases

At December 31, 2019 and 2018, these contributions amount to \$7,264 and \$1,376, respectively.

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

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

Paid stock premium

This premium applies to payments made by holders of the Equity Contribution Certificates of series "B" certificates. The balance of the premiums paid at December 31, 2019 and 2018 amounts to \$14,225 for both years.

Capital reserve

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

The nominal value of these capital reserves at December 31, 2019 and 2018, amounts to \$314 in both years and its restated value amounts to \$1,730 in both years.

Dividends declared

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

For the years ended December 31, 2019 and 2018 there were no dividends declared.

Comprehensive income

The comprehensive income reported in the consolidated statement of changes in stockholders' equity, represents the result of total activity during the year and includes the net income, the effect of the valuation of investments securities available for sale for \$5 and (\$202) at December 31, 2019 y 2018, respectively, as well as the effect on valuation in associated and affiliated companies and the remeasurements of defined employees' benefits for \$1,125 and \$(1,142) at December 2019, respectively, \$1,102 and \$32 at December 31, 2018, respectively.

Restrictions on stockholders' equity

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

In case of contributions or retained earnings distributions to stockholders, income tax is due on the portion of the contributions or distributions exceeding the taxable basis. At December 31, 2019, the Capital contribution account of the Institution (Cuenta de Capital de Aportación or CUCA) and the net taxable income account (Cuenta de Utilidad Fiscal Neta or CUFIN), amounted to \$66,700 and \$15,894, respectively.

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

Capitalization (unaudited)

At December 31, 2019 and 2018, the Institution maintained a capitalization ratio in excess of 10.5% (preliminary calculation of the capitalization ratio was set at 17.03%, which is comprised starting with net capital amounting to 31 billion 377 million pesos and weighted assets for total risks amounting to \$184,292), and 14.52%, respectively, it is classified as category I in both years in accordance with article 220 of the Provisions, the capitalization index is calculated by applying certain percentages in accordance with the risk assigned pursuant to the rules established by the Central Bank.

Basic and supplementary capital

The Institution's net capital consists of \$31,377 of basic capital. Pursuant to the application of the portfolio rating methodology, supplementary capital is zero, which implies that net capital is equal to the basic capital, which in turn equals the fundamental capital.

Assets adjusted for market risks

Assets adjusted for market risks amount to \$54,511 and are equivalent to a capital requirement of \$4,361, which is integrated as follows:

Exposed positions to market risk by risk factor		
Concept	Risk weighted assets	Capital requirement
Transactions in Mexican pesos at nominal rates	\$ 9,882	\$ 791
Transactions with debt securities in pesos with premium and adjustable rates	7,457	597
Transactions in Mexican pesos at real rates or denominated in UDI's	14,028	1,122
Positions in UDI's or with returns indexed to the NCPI	60	5
Foreign currency transactions at nominal rates	7,660	613
Foreign currency positions or with exchange rate indexed returns	220	17
Gold positions	-	-
Equity positions or with returns indexed to the price of a single share or group of shares	15,204	1,216
	\$ 54,511	\$ 4,361

Assets adjusted for credit risks

Assets adjusted for credit risk amount to \$118,079 and are equivalent to a capital requirement of \$9,446. Assets adjusted for risk related to borrowers and deposits amount to \$87,691 which are equivalent to a capital requirement of \$7,015, and are comprised as follows:

Weighted assets subject to credit risk by risk group		
Concept	Risk weighted assets	Capital requirement
Group III (weighted at 20%)	\$ 17,320	\$ 1,386
Group III (weighted at 50%)	3,156	251
Group III (weighted at 100%)	11	1
Group III (weighted at 120%)	10	1
Group IV (weighted at 20%)	2,127	170
Group VI (weighted at 100%)	636	51
Group VII (weighted at 20%)	10,312	825
Group VII (weighted at 50%)	985	79

Group VII (weighted at 100%)	15,187	1,215
Group VII-B (weighted at 50%)	0	0
Group VII-B (weighted at 100%)	37,137	2,971
Group VIII (weighted at Group VI)	7	1
Group IX (weighted at 100%)	803	64
	<u>\$ 87,691</u>	<u>\$ 7,015</u>

Assets adjusted for operational risks

Assets adjusted for operational risks amounted to 11,703 and are equivalent to a capital requirement of 936.

Weighted assets subject to operational risk

<u>Used method</u>	<u>Assets weighted by risk</u>	<u>Capital requirements</u>
Basic benchmark	\$11,703	\$936
Average market and credit risk requirement of the last 36 months		Annual average of positive net income for the past 36 months
	\$14,247	\$6,241

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

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

<u>Ref.</u>	<u>Tier 1 Common Stock (CET 1): Instruments and reserves</u>	<u>Amount</u>
1	Common shares that qualify for Tier 1 common stock plus its applicable premium	\$ 30,691
2	Prior year income	8,089
3	Other elements of comprehensive income (and other reserves)	(1,979)
6	Tier 1 common stock before regulatory adjustments	<u>\$ 36,801</u>
	Tier 1 common stock: regulatory adjustments	
15	Defined benefits pension plan	16,281
21	Deferred income taxes in favor from temporary differences (amount that exceeds the 10% threshold, net of taxes deferred charges)	856
26	Domestic regulatory adjustments	4,569
A	From which Other elements of comprehensive income (and other reserves)	-
D	From which: Investments in multi-lateral agencies	621

F	From which: Investments in capital risk	3,731
G	From which: Investments in mutual funds	217
28	Total regulatory adjustments to tier 1 common stock	\$ 5,424
29	Tier 1 Common Stock (CET 1)	\$ 31,377
	Additional tier 1 capital: regulatory adjustments	
44	Additional tier 1 capital (AT1)	\$ -
45	Tier 1 Stock (T1 = CET1 + AT1)	\$ 31,377
	Tier 2 capital: instruments and reserves	
51	Tier 2 capital before regulatory adjustments	-
	Tier 2 Capital: regulatory adjustments	
59	Total Capital (TC = T1 + T2)	\$ 31,377
60	Assets weighted by total risk	\$ 184,292
	Capital ratios and supplements	
61	Common tier 1 capital (as a percentage of the weighted assets by total risk)	17.03%
62	Tier 1 capital (as a percentage of the weighted assets by total risk)	17.03%
63	Total capital (as a percentage of the weighted assets by total risk)	17.03%
64	Institutional specific supplement (it should at least consist of the common tier 1 capital requirement, plus the capital conservation buffer, plus the countercyclical buffer, plus the G-SIB buffer stated as a percentage of the total weighted risk assets)	7.00%
65	of which: Conservation capital supplement	2.50%
68	Tier 1 common capital available to cover supplements (as a percentage of the total weighted risks assets)	10.03%

Ratio of net capital with the balance sheet:

Balance sheet amounts (expressed in millions of pesos)		
Balance sheet Items Reference	Balance sheet items (unconsolidated)	December 2019
	Asset:	
BS1	Cash and cash equivalents	61,754
BS2	Margin accounts	21
BS3	Investment securities	230,984
BS4	Debtors on repurchase/resell agreements	9,550
BS5	Securities lending	-

BS6	Derivatives	3,331
BS7	Valuation adjustment from hedging of financial assets	2,161
BS8	Total loan portfolio (net)	221,903
BS9	Receivable benefits on securities trading	
BS10	Other receivables (net)	6,714
BS11	Foreclosed assets (net)	-
BS12	Property and equipment (net)	8
BS13	Permanent investments */	26,638
BS14	Long-lived assets available for sale	
BS15	Deferred income taxes (net)	3,889
BS16	Other assets	833

Liabilities:

BS17	Deposit funding	276,019
BS18	Bank and other borrowings	33,082
BS19	Creditors on repurchase/resell agreement	200,418
BS20	Securities lending	
BS21	Collateral sold or furnished as a guarantee	
BS22	Derivatives	7,712
BS23	Valuation adjustments of hedging financial liabilities	73
BS24	Debentures in securities trading	
BS25	Other accounts payable	12,474
BS26	Outstanding unsecured obligations	
BS27	Deferred income taxes (net)	-
BS28	Deferred credits and prepayments	82

Stockholder's equity:

BS29	Capital stock	30,691
BS30	Earned capital	7,235

Balance sheet amounts

Balance sheet Items Reference	Balance sheet items (unconsolidated)
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Memorandum Accounts:

BS31	Guarantees granted	-
BS32	Contingent assets and liabilities	88,938
BS33	Loan commitments	102,136
BS34	Assets placed in trust or mandate	1,705,758
BS35	Federal Government Financial Agent	368,085
BS36	Assets in custody or administration	518,468
BS37	Collateral received by the entity	53,371
BS38	Collateral received and sold or pledged as a guarantee by the entity	43,819

BS39	Investment banking transactions on behalf of third party (net)	61,083
BS40	Interest earned but not collected arising from past due – loan portfolio	73
BS41	Other memorandum accounts	681,330

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

Identifier	Regulatory items considered for the calculation of net Capital	Reference to the disclosure form of the capital integration of section 1 to this exhibit	Amount of combination with notes to regulatory concepts considered for the calculation of net capital components	Reference(s) of the balance sheet item and the related amount to the regulatory concepts considered for the calculation of net capital from the aforementioned reference.
	Assets:			
3	Deferred income taxes (in favor) from losses and tax credits	10	856	
15	Investments in multi-lateral agencies	26 - D	621	
17	Investment in risk capital	26 - F	3,731	
18	Investments in mutual funds	26 - G	217	
22	Investments of the defined benefits pension plan	26 - N	16,281	Informative uncomputed data main
	Shareholders' equity:			
34	Paid in capital in accordance with exhibit 1-Q	1	\$ 30,691	

Identifier	Regulatory items considered for the calculation of net Capital	Reference to the disclosure form of the capital integration of section 1 to this exhibit	Amount of combination with notes to regulatory concepts considered for the calculation of net capital components	Reference(s) of the balance sheet item and the related amount to the regulatory concepts considered for the calculation of net capital from the aforementioned reference .
35	Prior year income	2	8,089	
37	Other capital earned elements other than the foregoing	3	-1,979	
41	Accumulated effect on translation	3, 26 - A	N/A	
42	Net income from non-monetary assets holding	3, 26 - A	N/A	
	Regulatory concepts not considered in the balance sheet :			
45	Profit or increase in the value of the assets by acquisition of securitization positions (Originating Institutions)	26 - C	N/A	
46	Transactions that contravene the Provisions	26 - I	N/A	
47	Relevant related parties transactions	26 - M	N/A	
48	Adjustment for capital recognition	26 - O, 41, 56	N/A	

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

Ref.	Characteristics	Option
1	Issuer	Nacional Financiera, Sociedad Nacional de Crédito
2	Identifier ISIN, CUSIP or Bloomberg	In conformity with Article 30 of Credit Institutions Law, Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, is governed by its internal regulations, holders of Series "A", capital contribution certificates, if applicable will have the rights set forth in article 35 of the Credit

		Institutions Law and article 12 of internal regulations of Nacional Financiera
3	Legal framework	
	<i>Regulatory treatment:</i>	
4	Capital level with transitory status	
5	Capital level without transitory status	Basic 1
6	Level of instrument	Lending institution without consolidating subsidiaries

Ref.	Characteristics	Options
7	Type of instrument	"A" Series certificates of capital contribution
8	Recognized amount in regulatory capital	66% in accordance with (3)
9	Nominal value of the instrument	50.00
9A	Instrument currency	Mexican pesos
10	Accounting classification	Capital
11	Issuance date	
12	Instrument term	Perpetuity
13	Maturity date	Without maturity
14	Prepaid expense clause	No
15	First prepaid expense date	
15A	Regulatory or tax events	
15B	Liquidation prices of prepaid expense clause	
16	Subsequent prepaid expense dates	
	<i>Yields / dividends</i>	
17	Type of yield / dividend	Variable
18	Interest rate / dividend	Variable
19	Dividend Cancellation clause	No
20	Discretionary nature in the payment	Completely discretionary
21	Interest increase clause	No
22	Yield / dividend	Noncumulative
23	Instrument convertibility	Nonconvertible
24	Convertibility conditions	
25	Degree of convertibility	
26	Conversion rate	
27	Type of instrument convertibility	
28	Type of financial instrument of convertibility	
29	Issuer of instrument	
30	Write - down clause	
31	Write - down conditions	
32	Degree of write - down	
33	Temporary status of write - down	
34	Temporary value write - down mechanism	
35	Subordinated position in case of liquidation	
36	Nonperformance characteristics	
37	Description of nonperformance characteristics	

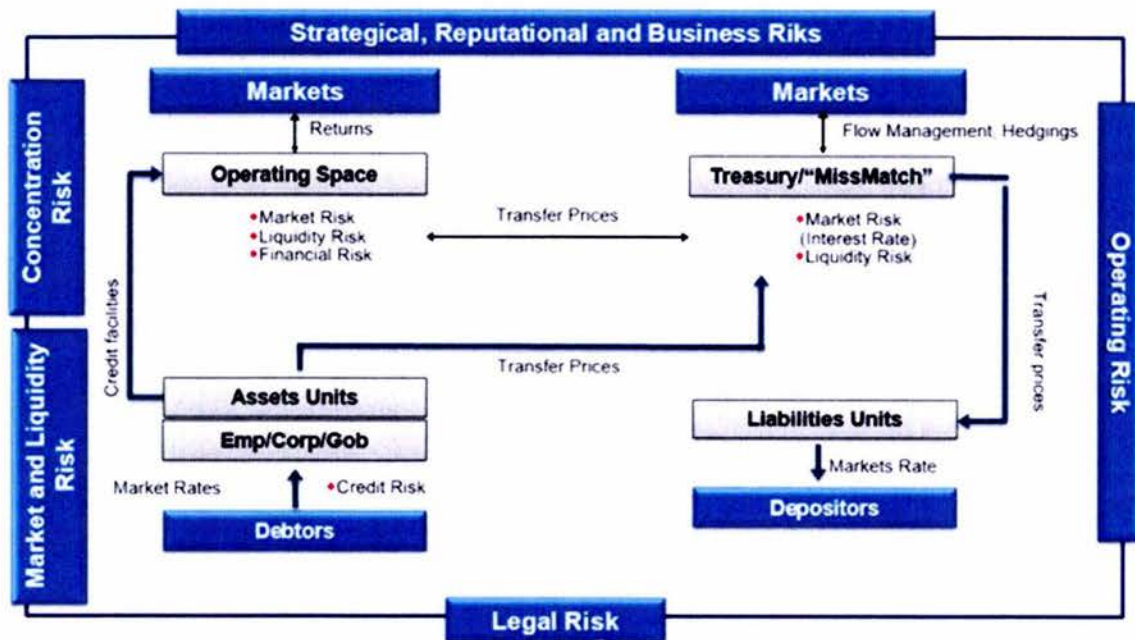
Capital management.

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

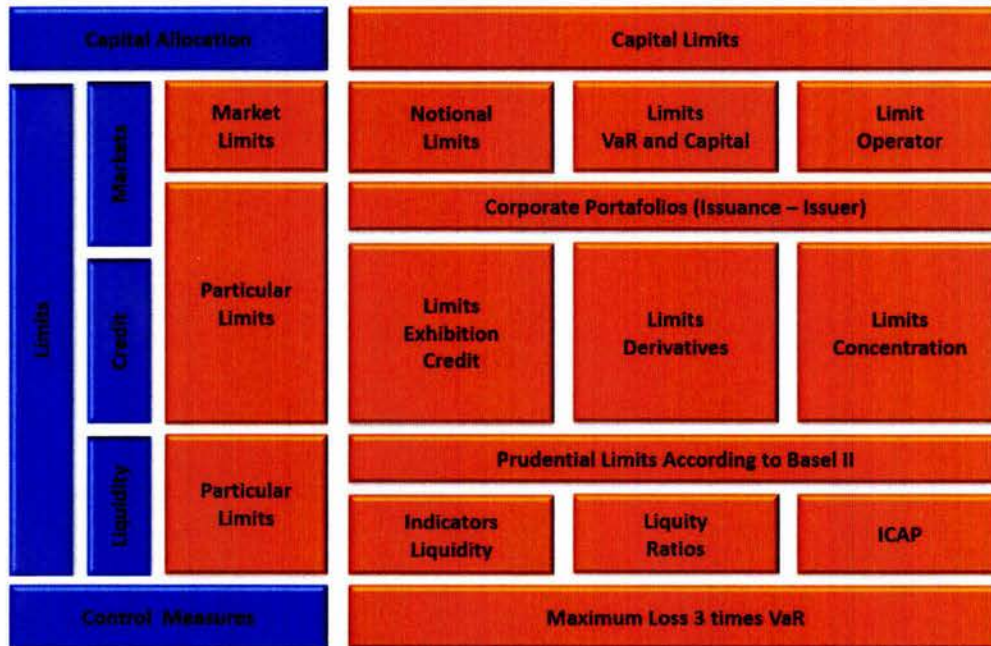
To ensure that risk management is a decision-making support tool, models and methodologies are established, that allow for measuring, monitoring and controlling the different types of risk to which the Institution is exposed. These risk measures should also contribute to the definition of business strategies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

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

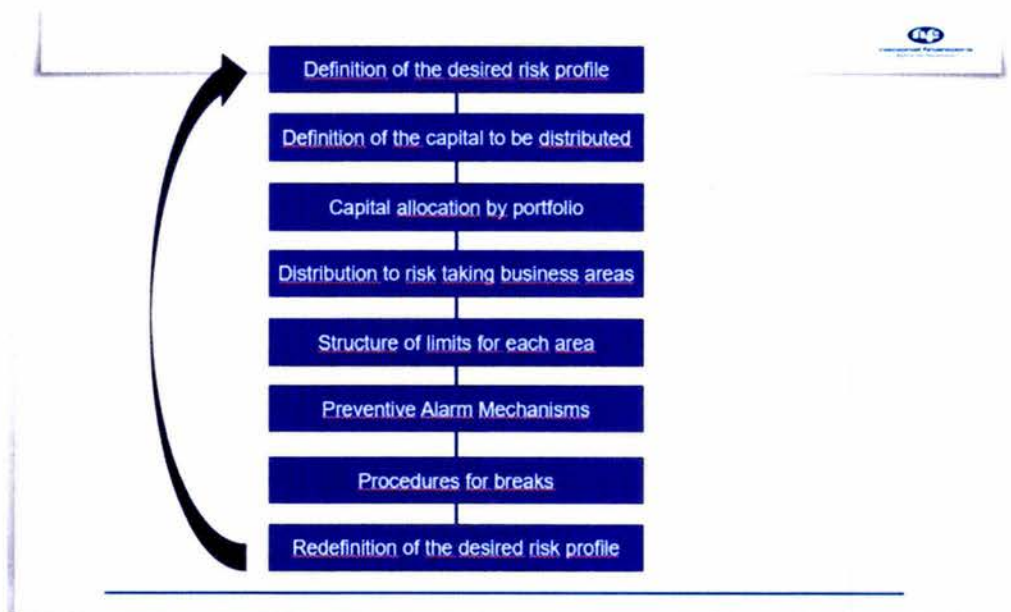
- Treasury: it operates as the central unit that manages the resources of the Institution. It is responsible for establishing transfer prices, controlling liquidity levels and control the risks of balance sheet. This unit incurs market, credit and liquidity risks, and in the case of Nacional Financiera, is also responsible for the deposit-funding unit.
- Operation desks: their main function is to generate revenues through the operation in different financial markets, (money, foreign exchange, capital and foreign currency bonds).
- Asset units: are those that encompass the promotion activities of the Institution and are derived from credit activities of Nacional Financiera. These activities are the main generators of credit risk.



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

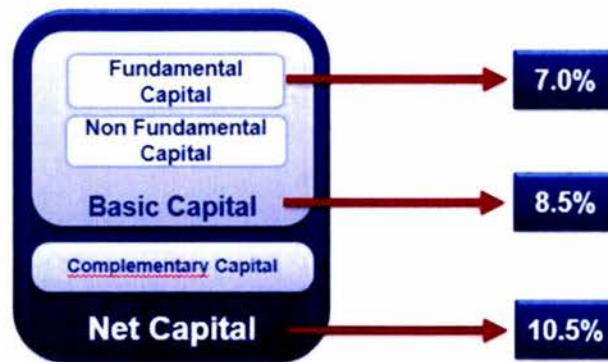


The diagram presented above, has a strong relevance to the capital limits, for which the following process is followed to determine limits:



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

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



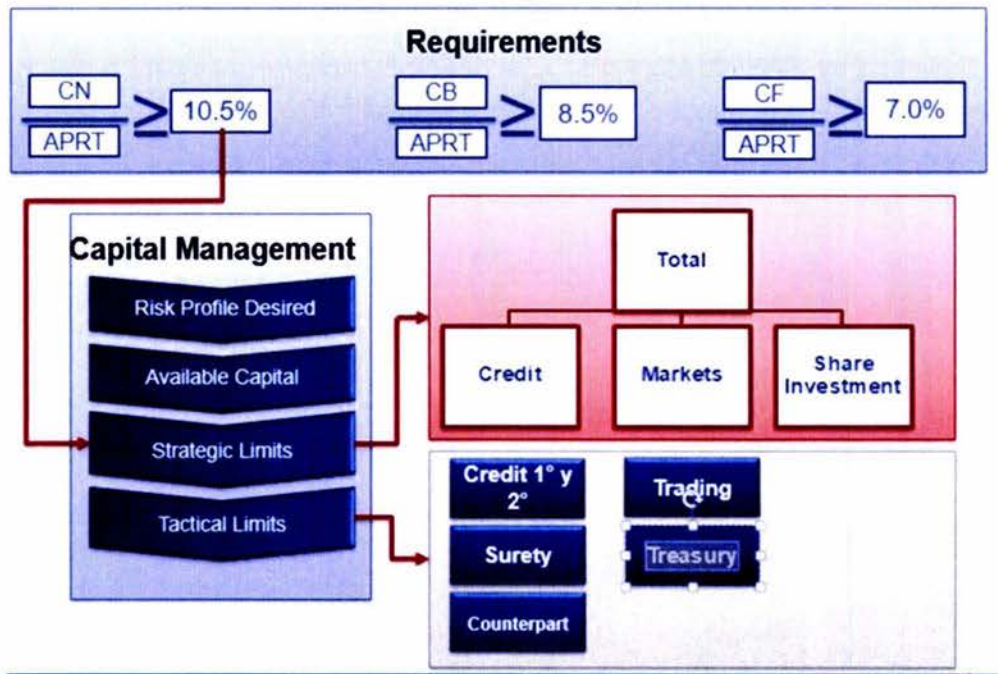
This increase of 250 basis point in the ICAP is a strong regulator that will replace the capital volatility for risk profile and operational risk previously held.

Capital limits structure

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

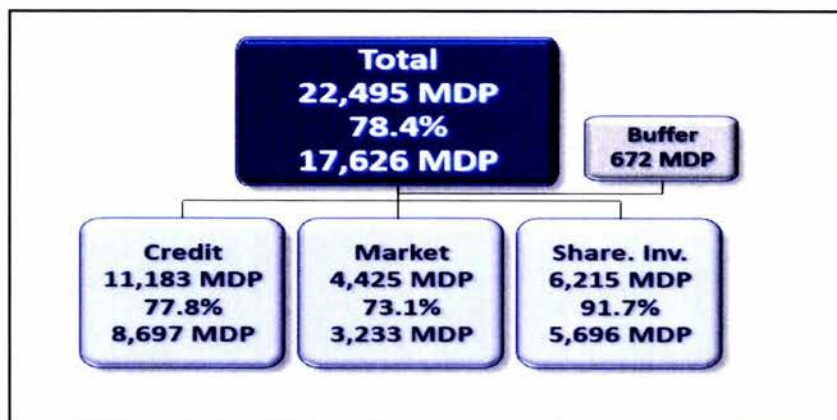
- a) A strategic level, authorized by the Board of Directors.
- b) A tactical level that is regulated by the IRMC, through reallocations or excess of limits, as well as the business areas management. Additionally, Deputy General Managers involved in the business areas can also propose reallocations of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

In summary the Institution has:



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

Considering the above, at the end of December 2019, the capitalization ratio was 17.03%. and the capital limit recorded a global consumption of 78.4%.



There are three basic scenarios:

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

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

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

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

23. MEMORANDUM ACCOUNTS

Contingent asset and liabilities

As of December 31, 2019 and 2018, this caption amounts to \$80,109 and \$70,798, respectively, integrated as follows:

	2019	2018
Contingent liabilities:		
Guarantees granted (1)	\$ 85,463	\$ 79,916
Unreimbursed guarantees paid covered by counter guarantee (2)	16,752	13,885
Receivables on claims	212	133
Acquired commitments	1,730	1,883
Contingency for portafolio without resource of Fisso 80139 (6)	1,911	-
Subtotal	106,068	95,817
Contingent assets:		
Counterguarantee received from the counterguarantee trust for enterprise financing (3)	7,778	10,154
Recoverable guarantees paid covered by counterguarantors (4)	16,752	13,885
Guarantees paid pending of recovery without counterguarantee (5)	1,429	980
Subtotal	25,959	(25,019)
Total	\$ 80,109	\$ 70,798

(1) In this caption, the Institution has mainly guarantees granted through Fondo para la Participación de Riesgos and Fondo para la Participación de Riesgos en Fianzas, which at December 31, 2019 and 2018, both present an amount of guarantees granted for \$81,863 and \$75,875, respectively. The spread at December 31, 2019 and 2018, for \$3,600 and \$4,041, respectively, correspond to selective guarantees granted directly by the Institution. These guarantees represent the amount of the responsibilities assumed by the Institution to guarantee financial intermediaries the recovery of their loan portfolio.

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

(3) Fondo para la Participación de Riesgos reduces the Institution's contingency through the counter-guarantee received from Fideicomiso de Contragarantía para el Financiamiento Empresarial, the promoter of granting of credits for specific purposes, which has assigned resources for these purposes for \$7,778 and \$10,154, at December 31, 2019 and 2018 respectively. These funds ensure, the recovery up to these amounts of the guarantees exercised by the financial intermediaries, who assume the commitment of negotiating the recovery of the credits of their final borrowers judicially and out-of- court.

In addition to this counter-guarantee, the Fund has created a preventive allowance for credit risks, for \$3,906 and \$3,108, at December 31 2019 and 2018, respectively, in accordance with the Provisions of the Banking Commission.

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

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

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

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

Credit commitments

At December 31, 2019 and 2018, the balance of authorized credit facilities and lines of guarantees granted to financial intermediaries that have not been withdraw amounted \$282,255 and \$190,176, respectively. At december 31 2019, \$180,119 correspond to credit and \$102,136 to lines of guarantee granted, respectively, where as at December 31, 2018, \$124,078 correspond to lines of credit and \$66,098 to lines of guarantees granted, respectively.

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

The Institution's trust activity recorded in memorandum accounts as of December 31, 2019 and 2018, as well as operations as financial agent for the Federal Government, are integrated as shown below:

	2019	2018
Investments trusts	\$ 16,639	\$ 15,169
Administrative trusts	1,679,811	1,675,280
Guarantee trusts	16,917	15,281
	1,713,367	1,705,730
Mandates	13,909	13,912
	1,727,276	1,719,642
Financial Agent of the Federal Government	368,085	380,346
Total	\$ 2,095,361	\$ 2,099,988

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

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

The Institution's revenue from its trustee activities at December 31, 2019 and 2018, amounted to \$518 and \$528, respectively.

As of December 31, 2019 and 2018, the trust accounts include a balance of \$355 and \$398, respectively, which corresponds to the assets of Fideicomiso de Recuperación de Cartera (FIDERCA), which manages doubtful accounts that were originally of the Institution and that in the year of 1996 were transferred to the Federal Government. The Institution currently holds the respective trustee rights.

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

Assets in custody or administration

As of December 31, 2019 and 2018, this caption includes, trading securities and credit operations, as well as the securities issued by the Institution and managed on behalf of clients, as shown below:

	2019	2018
Custody	\$ 9,921	\$ 10,579
Pledge securities	228,277	260,293
Securities in administration	280,270	256,436
Subsidiaries	19,491	15,399
	\$ 537,959	\$ 542,707

Fees collected by the Institution for this type of activities for the years ended December 31, 2019 and 2018, amounted to \$8 and \$8, respectively.

Other memorándum accounts

As of December 31, 2019 and 2018, the balances of other memorandum accounts are comprised as follows:

	2019	2018
Guarantees paid reported by brokers as uncollectible without a counterguaranty (a)	\$ 267	\$ 195
Classification by degree of risk of the credit portfolio	312,850	341,003
Loans obtained pending for disbursements (note 18)	2,502	2,619
Other memorandum accounts (b)	378,994	406,335
Total	\$ 694,613	\$ 750,152

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

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

24. ADDITIONAL INFORMATION ON OPERATIONS AND SEGMENTS

Segment information (unaudited)-

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

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

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

Guarantees granted to banks and non-bank financial intermediaries are included in the credit guarantees segment. The balances of this segment are presented in memorandum accounts and as of December 31, 2019 and 2018, amount to \$80,109 and \$79,915, respectively.

The balances of the Financial Agent segment correspond to activities carried out by mandate of the Federal Government, to manage on its behalf, resources obtained from international financial organizations, and as of December 31, 2019 and 2018, amounted to \$368,094 and \$380,375, respectively, of which \$368,085 and \$380,346, respectively, are recorded in memorandum accounts.

The trustee segment includes administrative services for proprietary and external trusts, which amount to \$1,713,367 and \$1,705,730, respectively, as of December 31, 2019 and 2018, which are presented in memorandum accounts

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

As of December 31, 2019 and 2018, the assets, liabilities and net income of the main operations by business segments of the Institution are presented below:

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

2018 Business Segments	Assets		Liabilities And equity		Net income	
	Amount	%	Amount	%	Amount	%
Markets and treasury	\$ 307,642	52.8	\$ 307,642	52.8	\$ 1,169	47.9
First tier credit	73,566	12.6	73,566	12.6	1,011	41.5
Second tier credit	186,037	31.9	186,037	31.9	771	31.6
Loan guarantees	-	-	-	-	1,444	59.2
Financial agent	29	-	29	-	32	1.3
Trustee	-	-	-	-	(66)	(2.7)
Other areas	15,643	2.7	15,643	2.7	495	20.3
Retirement benefit and expense	-	-	-	-	(2,417)	(99.1)
Total	\$ 582,917	100	\$ 582,917	100	\$ 2,439	100

For the years ended December 31, 2019 and 2018, income by segment is analyzed as follows:

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

2018	Markets and Treasury	First Tier credit	Second Tier credit	Loan Guarantees	Financial agent	Trustee	Other areas	Retirement Benefit And expense	Total
Income:									
Financial income net (a)	\$ 1,787	\$ 1,219	\$ 2,389	\$ 3,093	\$ 207	\$ 198	\$ 682	\$ -	\$ 9,575
Expenses:									
Operating expense	(417)	(125)	(646)	(403)	(155)	(230)	(126)	-	(2,102)
Operating income	\$ 1,370	\$ 1,094	\$ 1,743	\$ 2,690	\$ 52	\$ (32)	\$ 556	\$ -	\$ 7,473
Allowance for loan losses and write-offs	(4)	75	(820)	(1,009)	(2)	(3)	(2)	-	(1,765)
Retire expense	-	-	-	-	-	-	-	(1,041)	(1,041)
Other expenses and taxes	(197)	(158)	(152)	(237)	(18)	(31)	(59)	(1,376)	(2,228)
Net income	\$ 1,169	\$ 1,011	\$ 771	\$ 1,444	\$ 32	\$ (66)	\$ 495	\$ (2,417)	\$ (2,439)

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

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

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

During 2019, accumulated earnings for the markets and treasury segment amounted to \$2,086, comprised of \$2,378 generated by the operation of the different markets and treasury, as well as the losing effect of \$192 coming from the portfolio at maturity and the decrease of \$100 corresponding to market commissions, which was 16.7% higher than the obtained in the same period of 2018.

As of December 31, 2019, the net income for the First tier credit amounted to \$1,048, comprised of \$802 of financial margin, \$ 59 commission charged for non-disposition and other net income by \$187 associated with structuring commissions.

The accumulated financial income for the year ended December 31, 2019 for the Second tier credit amounted to \$2,272, of which \$2,158 correspond to financial margin and \$114 to commissions and other net income associated with the credit operation. The amount of net financial income in 2019 was 9.1% higher than 2018, due to the increase of 6 basis points in the weighted margin of the loan portfolio. Also, the average balance of the portfolio was of 3.9%.

At December 31, 2019, the credit guarantees segment presents net financial income of \$4,312, including \$2,299 of fees charged for the guarantees granted, as well as \$1,256 of interest on investments, and \$757 by other commissions, net recovery and fee payments. The net financial income of the credit guarantees segment increased by 39.4%, as compared with the same period of 2018, mainly due to the fees charged.

As at December 31, 2019, net financial income of the financial Agent segment amounted to \$221, which represents an increase in the amount of \$13.7, with regard to commissions obtained in the same period of last year, which is partially explained by the 0.8% marginal increase in the balances of managed businesses.

During 2019, in the Trustee segment, net financial income amounted to \$195 or 1.7% lower than the one obtained in the prior year, as a result of the update of the services charged

Financial margin-

For the years ended December 31, 2019 and 2018, the financial margin in the consolidated statement of income is comprised is as follows:

	2019		
	Total	Local currency	Foreign Currency
Interest income:			
Interests of performing and nonperforming loan portfolio::			
Commercial loans	\$ 4,376	\$ 2,073	\$ 2,303
Mortgage loans	5	5	-
Loans to government entities	1,367	1,366	1
Credits granted as agent of the Federal Government	1	-	1
Loans to financial entities	14,015	13,565	450
	\$ 19,764	\$ 17,009	\$ 2,755
Interests and returns earned on investments in securities:			
Trading securities	1,606	1,606	-
Securities available for sale	321	-	321
Securities held to maturity	730	694	36
	\$ 2,657	\$ 2,300	\$ 357

Interests and returns earned on repurchase/ resell agreements:

Repurchase/ resell agreements	\$ 21,134	\$ 21,134	-
Cash and cash equivalents interest:			
Banks	337	-	337
Restricted cash and cash equivalents	1,712	1,688	24
	\$ 2,049	\$ 1,688	\$ 361

Commissions from credit operations: (return adjustment):

Commercial loans	109	109	-
Interest and returns from margin accounts	2	2	-
Gain (loss) from hedging transactions	(7,201)	(6,372)	(829)
Premium on debt placement	12	12	-
Equity dividends (net)	18	18	-
Gain from valuation	79	7	72
	\$ (6,981)	\$ (6,224)	\$ (757)
Total interest income	\$ 38,623	\$ 35,907	\$ 2,716

Interest expenses:

Interest from time deposits	13,971	13,876	95
Interest on securities issued	5,678	4,289	1,389
Interest paid on interbank loans and other Agencies	943	494	449
Interests and returns paid on repurchase / resell agreements	19,266	19,265	1
Expenses from hedge trading	(7,095)	(6,053)	(1,042)
Discounts for debt issued	71	71	-
Issuance expenses due to debt placement	17	8	9
Loss from valuation	1	1	-
Total interest expenses	\$ 32,852	\$ 31,951	\$ 901
Financial margin	\$ 5,771	\$ 3,956	\$ 1,815

2018

	Total	Local Currency	Foreign Currency
Interest income:			
Interests of performing loan portfolio:			
Commercial loans	\$ 3,782	\$ 1,787	\$ 1,995
Mortgage loans	4	4	-
Loans to government entities	1,330	1,330	-
Credits granted as agent of the Federal Government	1	-	1
Loans to financial entities	12,749	12,378	371
	\$ 17,866	\$ 15,499	\$ 2,367

Interests and returns earned on investments in securities:

Trading securities	\$ 486	\$ 486	\$ -
Securities available for sale	301	-	301
Securities held to maturity	972	927	45
	\$ 1,759	\$ 1,413	\$ 346

Interests and returns earned on repurchase/ resell agreements:

Repurchase / resell agreements:	\$ 21,796	\$ 21,796	\$ -
Cash and cash equivalents interest:			
Banks	269	-	269
Restricted cash and cash equivalents	1,237	1,187	50
	1,506	1,187	319
Subtotal	\$ 42,927	\$ 39,895	\$ 3,032

Commissions from credit operations (performance adjustment):

Commercial loans	\$ 131	\$ 131	\$ -
Interest and returns from margin accounts	3	3	-
Gain (loss) from hedging transactions	(6,494)	(5,750)	(744)
Premium on debt placement	13	13	-
Equity dividends (net)	28	28	-
Profit from valuation	3	3	-
	\$ (6,316)	\$ (5,572)	\$ (744)

Total interest income	\$ 36,611	\$ 34,323	\$ 2,288
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Interest expenses:

Interest from time deposits	\$ 11,339	\$ 10,405	\$ 934
Interest on securities issued	5,441	4,043	1,398
Interest paid on interbank loans and other agencies	818	448	370
Interests and returns paid on repurchase / resell agreements	17,104	17,104	-
Expenses from hedge trading	(6,609)	(5,631)	(978)
Discounts for debt issued	60	60	-
Issuance expenses due to debt placement	23	8	15
Loss from valuation	4,640	-	4,640
Total interest expenses	\$ 32,816	\$ 26,437	\$ 6,379
Financial margin	\$ 3,795	\$ 7,886	\$ (4,091)

Commission and fee income -

For the years ended December 31, 2019 and 2018, the commissions and fee income are analyzed as follows:

2019	Total	Local currency	Foreign currency
Commissions and fees earned:			
Credit operations	\$ 182	\$ 182	\$ -
Assets in custody or administration	7	7	-
Trustee activities	518	518	-
Others	2,564	2,484	80
	\$ 3,271	\$ 3,191	\$ 80
Commissions and fees paid:			
Loans received	18	-	18
Debt placement	3	2	1
Others (services)	151	148	3
	\$ 172	\$ 150	\$ 22
<hr/>			
2018	Total	Local Currency	Foreign Currency
Commissions and fees earned:			
Credit operations	\$ 404	\$ 404	\$ -
Assets in custody or administration	8	8	-
Trustee activities	528	528	-
Others	2,103	2,015	88
	\$ 3,043	\$ 2,955	\$ 88
Commissions and fees paid:			
Loans received	10	-	10
Debt placement	1	-	1
Others (services)	187	184	3
	\$ 198	\$ 184	\$ 14

Financial intermediation income -

For the years ended December 31, 2019 and 2018, financial intermediation income is analyzed as follows:

2019	Total	Local currency	Foreign currency
Gain (loss) from valuation at fair value and decrease from securities valued at cost:			
Trading securities	\$ 39	\$ 39	\$ -
Derivative financial instruments for trading purposes	55	33	22

Derivative financial instruments for hedging purposes		(68)		1,140		(1,208)
Collaterals sold		1		1		-
	\$	27	\$	1,213	\$	(1,186)
Gain (loss) from securities purchase/sale and derivative financial instruments						
Trading securities	\$	520	\$	520	\$	-
Securities available for sale		106		100		6
Securities held to maturity		7		-		7
Derivate financial instruments for trading purposes		(1,097)		(1,097)		-
	\$	(464)	\$	(477)	\$	13
Result from currency trading	\$	478	\$	-	\$	478
Financial intermediation income	\$	41	\$	736	\$	(695)
2018						
		Total		Local Currency		Foreign Currency
Gain (loss) from valuation at fair value and decrease from securities valued at cost:						
Trading securities	\$	311	\$	311	\$	-
Derivative financial instruments for trading purposes		(468)		6		(474)
Derivative financial instruments for hedging purposes		(7)		298		(305)
	\$	(164)	\$	615	\$	(779)
Gain (loss) from securities purchase/sale and derivative financial instruments						
Trading securities	\$	(46)	\$	(46)	\$	-
Securities available for sale		138		244		(106)
Derivate financial instruments for trading purposes		98		98		-
	\$	190	\$	296	\$	(106)
Result from currency trading	\$	1,289	\$	-	\$	1,289
Financial intermediation income	\$	1,315	\$	911	\$	404

Other operating income (expenses)

For the years ended December 31, 2019 and 2018, other operating income (expenses) is analyzed as follows:

2019	Total	Local Currency	Foreign Currency
Cancellation of excess of allowance for loan losses	\$ 1,551	\$ 1,309	\$ 242
Other recoveries	98	98	-
Estimation due to irrecoverability or difficult collection	(3)	(3)	-
Income from sale of property, plant and equipment	57	57	-
Estimate for loss of foreclosed assets	(3)	(3)	-
Others foreclosed	(7)	(7)	-
Income from sale of foreclosed assets	262	262	-
Income from loans to employees	33	33	-
Other items of operating income (expenses) (a)	(7,675)	(7,698)	23
Lease income	28	28	-
	\$ (5,659)	\$ (5,924)	\$ 265

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

2018	Total	Local Currency	Foreign Currency
Recovery of the credit portfolio	\$ 361	\$ 361	\$ -
Other recoveries	75	75	-
Estimation due to irrecoverability or difficult collection	(357)	(357)	-
Result on sale of property, furniture and equipment	18	18	-
Other losses	(7)	(7)	-
Income from sale of foreclosed assets	8	8	-
Income from loans to employees	44	44	-
Other items of operating income (expenses) (b)	(467)	(467)	-
Unidentified deposits (c)	306	306	-
Lease income	55	55	-
	\$ 36	\$ 36	\$ -

- b) On November 15, 2018, the Institution paid \$1,376, in accordance with the official letter number 368.-067/2018 dated November 13, 2018, issued by the Ministry of Finance and Public Credit, whereby the Federal Government instructs the Institution to pay based on the legal nature of use for furnishing sovereign guarantee of the Federal Government.
- c) A credit was made to income in 2018, due to unidentified deposits that were accounted for as other income in the statement of income of prior years, which are highlighted to be comparable for purposes of presentation in both years.

Administration and promotion expenses

For the years ended December 31, 2019 and 2018, the Administration and promotion expenses item is as follows:

2019	Total	Local Currency	Foreign Currency
Administration and promotion expenses	\$ (2,730)	\$ (2,730)	-
Unidentified deposits (d)	(265)	(265)	-
	\$ (2,995)	\$ (2,995)	\$ -

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

2018	Total	Local Currency	Foreign Currency
Administration and promotion expenses	\$ (3,580)	\$ (3,580)	\$ -

Financial ratios (unaudited)

The main quarterly financial ratios of the Institution, as of and for the years ended December 31, 2019 and 2018 are as follows:

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

	2018			
	1st Q	2nd Q	3rd Q	4th Q
Delinquency index	0.84%	0.80%	0.35%	0.29%
Coverage of past due loan portfolio index	398.12%	412.85%	807.34%	952.91%
Operating efficiency (administrative and promotional expenses / average total assets)	0.67%	0.62%	0.64%	0.73%
ROE (annualized net income for the quarter/ average stockholder's equity)	9.61%	5.57%	11.76%	1.56%
ROA (annualized net income for the quarter / average total assets)	0.62%	0.35%	0.75%	0.10%
Net capital/ Assets subject to credit risk	22.97%	21.87%	24.18%	21.51%
Net capital/ Assets subject to credit, market and operational risk.	14.18%	14.58%	15.41%	14.52%
Liquidity (liquid assets / liquid liabilities)	3889.98%	1210.03%	1024.63%	371.17%
Financial margin after allowance for loan losses/ average earning assets.	0.05%	0.71%	(0.88)%	0.86%

25. COMMITMENTS AND CONTINGENCIES

Leases

Leases provide periodic rental adjustments expense, based on changes in various economic factors. The Institution has commitments for non-cancellable leases. The total rental expense for office property, for the years ended December 31, 2019 and 2018, amounted to \$12 and \$70, respectively.

Claims and trials

In the normal course of operations, the Institution is involved in some claims and trial, which are not expected to have a material adverse effect on the financial situation and results of its operations. In such cases that represent a probable loss or make a cash outflow, the Institution has made the necessary provisions.

It is important to mention that, up to date, there are no litigations on tax matters.

The main trials and claims refer to lawsuits for recoveries of loan portfolios and trusts for the years ended December 2019 and 2018. Their possible effect amounted to \$1,083 and \$689, respectively. Moreover, as at December 31, 2019 and 2018, there continue to be labor lawsuits, which present a value of the lawsuit in the amount of \$99 and \$96, respectively.

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

Labor liabilities

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

26. RISK MANAGEMENT (UNAUDITED INFORMATION)

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

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

Discretionary quantifiable risks

Market risk

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

The following general principles, stand out:

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

In the generation of scenarios, a year of historical information is considered in the risk factors and the risk factors related to domestic and foreign interest rates, spreads, exchange rates, indices and share prices are considered. In addition to the VaR information, sensitivity measures are calculated, and stress tests are carried out ("stress-test").

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

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

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

The amount of the average VaR for the year 2019 \$52.31 which represents 0.17% of the net capital at the end of December 2019.

Markets	
Amount VaR \$52.312 MDP	
Trading VaR \$16.003 MDP	Treasury VaR \$36.309 MDP

Management of assets and liabilities

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

Liquidity risk

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

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

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

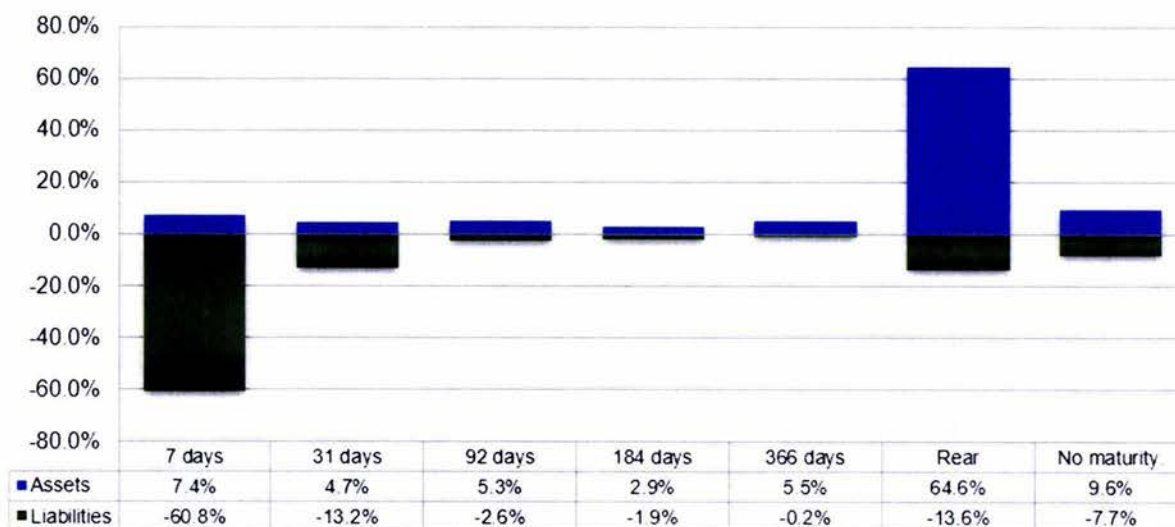
Maturity profile in local currency

Active and passive operations in national currency decreased 0.4% during 2019, standing at the end of December at \$505,213. Based on regulatory criteria, the maturity gap considers both balance sheet items and memorandum accounts, that is, repo and derivatives. It should be noted that the national currency to be delivered for the sale of dollar forwards has been reclassified as a liability.

Maturity ranges	2019			2018		
	Assets	Liabilities	Gap	Assets	Liabilities	Gap
Up to 7 days	\$ 55,271	\$ 311,564	(256,293)	\$ 34,008	\$ 322,841	(288,833)
Up to 31 days	23,367	66,573	(43,206)	15,351	69,313	(53,962)
Up to 92 days	26,114	12,597	13,517	18,907	1,010	17,897
Up to 184 days	14,194	9,382	4,812	23,794	8,489	15,305
Up to 366 days	27,310	949	26,361	33,567	4375	29,192
Subsequent	317,560	66,221	251,339	343,613	65,753	277,860
With no defined maturity	41,397	37,927	3,470	38,096	35,555	2,541
Total	\$ 505,213	\$ 505,213		\$ 507,336	\$ 507,336	

The gap of negative liquidity on the horizon of a month amounts to \$299,499.

Den MN maturity profile



Maturity profile in foreign currency

Active and passive operations in foreign currency as of December 31, 2019 decreased by 7.8% during the year, because there are no open forwards positions. Based on regulatory criteria, the maturity gap considers both balance sheet items and memorandum accounts, that is, repurchase agreements and derivatives.

Maturity ranges	2019			2018		
	Assets	Liabilities	Gap	Assets	Liabilities	Gap
Up to 7 days	\$ 936	\$ 518	418	\$ 1,456	\$ 201	\$ 1,255
Up to 31 days	449	445	4	382	702	(320)
Up to 92 days	475	757	(282)	369	1,232	(863)

Up to 184 days	18	98	(80)	30	132	(102)
Up to 366 days	3	566	(563)	36	526	(490)
Subsequent	2,767	2,431	336	2,786	2,430	356
With no defined maturity	167	0	167	164	0	164
Total	\$ 4,815	\$ 4,815		\$ 5,223	\$ 5,223	

In accordance with the contractual maturity of assets and liabilities in foreign currency and based on figures of the balance sheet at the end of December 2019, it can be seen that in the first 7 days of January of 2020, there was a positive million dollar liquidity of \$418.



Estimate of gain or loss on advance sale

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

At the end of December 2019, considering the scenarios of crisis in the portfolios of corporate trading and investment to maturity, if there was a similar situation to November 9, 2016, it would lead to a loss of \$241.93 MDP, equivalent to 1.51% of the value of the position.

Portfolio MXN	Position	Advanced sale						
			25/08/1998	11/09/2001	19/09/2002	28/04/2004	16/10/2008	09/11/2016
Corporate Trading	3,681.49	-0.13	-0.52	0.16	0.04	0.04	0.03	-0.13
Investment to maturity	12,354.95	-110.31	-98.95	-0.99	-22.97	-107.08	-110.31	-241.81

Considering the crisis scenarios on the portfolios available for sale and held to maturity of the London branch, if there was a situation similar to the 2016 crisis, this could result in a loss of \$150.54 MDP equivalent to 1.96% of the value of the position.

Portfolio MXN	Position	Advanced sale						
			12/10/1998	12/09/2001	19/09/2002	10/05/2004	16/10/2008	09/11/2016
Available for sale	6,973.62	-157.85	-157.85	-183.42	-72.72	-59.25	-45.01	-135.17
Held to maturity	709.99	-15.37	-14.06	-16.32	-6.69	-5.45	-4.03	-15.37

Credit risk

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

Expected loss

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

Considering this methodology, the following assumptions are also established:

- The portfolio of former employees is excluded, in order to directly measure the effect of the expected losses of the portfolio with risk from the private sector.
- The contingent portfolio of the credit to the Trust for the Participation to Risks is not considered since this trust is in charge of managing its credit risk.
- Additional reserves are not included.
- The financial agent portfolio is not considered as it is a portfolio without risk
- The nonperforming portfolio is considered, since according to the portfolio qualification methodology based on expected loss, when an event of default occurs, it does not imply that the expected loss is reserved at 100%.

Under the aforementioned assumptions, at the end of December 2019, the total portfolio stood at \$225,940.9, while the expected loss from the loan portfolio amounted to \$3,284.8, equivalent to 1.45% of the rated portfolio and 1.45% of the total portfolio.

Expected losses allowance

Portfolio	Portfolio balance	Expected loss	% Expected loss
Exempt	\$ 137.7	\$ 10.0	7.3%
Risk A	159,017.7	1,324.6	0.83%
Risk B	63,520.3	1,126.8	1.77%
Risk C	2,391.5	157.6	6.59%
Risk D	156.6	70.5	45%
Risk E	716.4	595.3	83.9%
Rated	225,802.5	3,274.8	1.45%
Total	\$ 225,940.2	\$ 3,284.8	1.45%

Unexpected loss

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

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

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

- The similarity of concepts existing between the proposed economic methodology and the capital requirement for credit risk estimated from the Basel II basic approach. This approach allows institutions to estimate with internal methods the capital requirement necessary to support their risk.
- High levels of correlation and similarity in the average capital requirement observed during a year of internal implementation of the proposed credit portfolio unexpected loss methodologies.

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

At the end of December 2019, the estimate of unexpected loss under the economic approach amounts to \$16,667 and the credit VaR amounts to \$18,236 and represents 8.07% of the portfolio with risk.

Counterparty risk and diversification

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

At the end of December 2019, no economic group concentrates credit risk above the maximum financing limits.

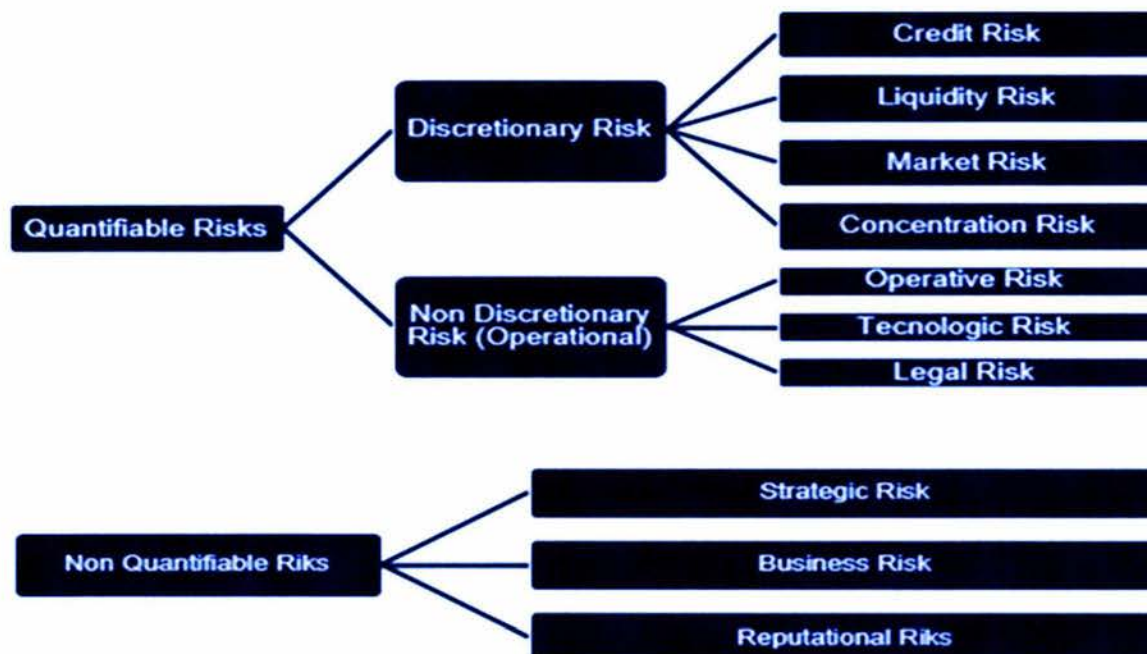
You have the following number of financings (credit and market operations) that exceed 10% of the basic capital individually:

<u>Number of financing</u>	<u>Total amount</u>	<u>Capital percentage</u>
26	\$ 216,635	701.6 %

The amount of financing for credit operations that is maintained with the three main companies based on article 60 of the CUB amounts to \$13,174.

Operational risk and non-quantifiable

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



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

- **Operational Risk:** potential losses derived from failures or deficiencies of internal controls, due to errors in the processing and storage of operations.
- **Technological risk:** potential losses derived from damages, interruption, alteration or failures derived from the use or dependence on hardware, software, systems, applications, networks and any other channel of information distribution in the provision of banking services with customers of the Institution that derive in errors in the processing and storage of operations or in the transmission of information.
- **Legal Risk:** potential losses derived from the applicable legal and administrative provisions, the issuance of unfavorable administrative and judicial resolutions and the application of sanctions, in relation to the operations carried out by the institutions.

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

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

- Business risk: potential losses attributable to the inherent characteristics of the business and changes in the economic cycle or environment in which the institution operates.
- Reputation risk: potential losses in the development of the activity of the institution proceeding from the impairment in perception that have the different parties concerned, both internal and external, on its solvency and viability.

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

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

- It is the responsibility of the Operational Risk Sub-Direction to define the procedures for the management of inherent and residual operational risks, economic loss events, tolerance levels, risk limits, amounts of probable potential losses derived from judicial resolutions or administrative unfavorable litigation in which the Institution is the plaintiff.
- None of the procedures defined for these risks may be modified or altered, only with the authorization of the Integral Risk Management Committee and annually by the Board of Directors.
- The necessary evidence will be available to manage non-discretionary and non-quantifiable risks.
- The tools that have been developed or acquired by the Institution will be used to manage operational risk and non-quantifiable risks.

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

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

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

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

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

Methodologies, limits and tolerance levels.

Method to determine the capital requirement for operational risk.

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

Non-discretionary risks

Operational risk

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

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

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

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

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

Technological risk

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

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

Legal risk

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

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

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

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

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

Risks on the assets of the institution

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

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

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

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

During the years 2019 and 2018, were covered, via policy, the damages that occur within the national territory and abroad of tangible and intangible assets (all kinds of software or packages of programs, licenses, permits, technology information and database) including in general material damages, civil liability, accidental breakage of glass including neon signs, theft and/or assault with violence or without violence, theft of money and securities, banking, electrical equipment, Electromechanical, electronic, electromagnetic and fixed and mobile telephony, boilers and equipment subject to pressure, breakage of machinery, equipment contractor, goods in transit (transport), works of art, and difficult or impossible to reposition objects, money and values, outfitting and safety equipment, personal accident, infidelity of employees and terrorism. A policy covering the vehicle fleet also exists

Non-quantifiable risks

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

- Strategic risk. -The institution has a methodology based on defining, documenting, and following-up on the Institution's Management strategies, which, each year are defined and approved, as well as presented to the Board of director, at least on a quarterly basis, for the decision making and mitigation of detected risks.
- Business risk. - Four indicators that help to identify the possible materialization of the risks that could affect the Institution derived from movements in the financial environment and the economic cycle were defined as a methodology to manage this risk. These indicators are given monthly monitoring through risk reports.
- Reputation risk. - For the administration of this risk, a Communication Plan was defined applied and monitored by the Social Communication Management, said Plan considers the attention to the minimum requirements issued by the Banking Commission in the Provisions regarding the reputation risk. The Social Communication Management monitors the events that affect the negative perception that is held internally or externally of the Institution. As a control of this risk, the IRMC is informed at least quarterly.

Operational risk results

Results of self-assessments -

The result of the most relevant processes of the Institution in terms of its nature at the end of December 2019, is as follows:

Name of the process	Nature indicator */	Tolerance level
SPEI Operation **	269.50	Medium high risk
Money market	254.66	Medium high risk
Derivatives market	247.74	Medium high risk
Cash flow management and control	241.68	Medium high risk
Treasury management	240.92	Medium high risk
Fiduciary process	224.99	Medium high risk
General cash Fund	214.88	Medium high risk
Recovery of First Floor Portfolios, Emerging Programs and Exemployee	213.94	Medium high risk

Capital market	210.76	Medium high risk
Recovery of Second tier Portfolio	204.90	Medium risk
Administration of Automatic Guarantees of Nacional Financiera, S.N.C., and the participant Development Bank. (Guarantee program)	196.09	Medium risk
Custody and Administration of Securities and Cash	195.79	Medium risk
Electronic Products management	193.30	Medium risk
Financial agent Back office	187.74	Medium risk
Credit control desk operation	185.40	Medium risk
Provision and Management of the Medical Service	183.07	Medium risk
Spending operation	155.27	Medium risk
Provision of contentious legal services and banking formalization	152.95	Medium risk
Exchange Market *	113.67	Medium high risk
Prevention and identification of Operations with Resources of Illegal Origin - BDTT **	107.01	Low risk
Rating of Portfolio, Reserves and Regulatory Reports	99.59	Low risk
Securities loan *	99.30	Medium risk
Applied development	69.20	Low risk
Save values and central file	64.09	Low risk

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

* * Assessed under the previous methodology.

** Does not belong to the Quality Management system but is considered critical.

The result obtained at the end of December 2019 of the most relevant processes that describe the Institution's work, in terms of efficiency, is shown below:

Name of the process	Efficiency indicator */	Tolerance level
Cash flow management and control	121.68	Low risk
Derivatives market	117.41	Low risk
Fiduciary process	116.99	Low risk
Rating of Portfolio, Reserves and Regulatory Reports	115.65	Low risk
Financial agent Back office	115.64	Low risk
Money market	109.90	Low risk
Capital market	109.78	Low risk
Provision and Management of the Medical Service	108.91	Low risk
SPEI operation **	108.72	Low risk
Provision of contentious legal services and banking formalization	106.99	Low risk
Recovery of First Floor Portfolios, Emerging Programs and Exemployee	106.34	Low risk
Electronic Products management	106.24	Low risk
Spending operation	105.82	Low risk
Safe value and central file	102.61	Low risk
Credit Control Table Operation	100.60	Low risk
Automatic Guarantees management of Nacional Financiera, S.N.C., and the participant Development Bank. (Guarantee program)	100.50	Low risk
Prevention and identification of Operations with Resources of Illegal Origin - BDTT (Database)	94.73	Low risk

General cash fund	93.48	Low risk
Treasury management	91.08	Low risk
Securities and cash custody and management	87.44	Low risk
Recovery of Second tier Portfolio	84.11	Low risk
Applied development	77.57	Low risk
Exchange market *	72.15	Medium risk
Securities lending *	46.92	Low risk

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

* Assessed under the previous methodology.

** Does not belong to the Quality Management system but is considered critical

Five inherent operational operations were recorded in the red zone in 2019, that is, zone nine (high frequency and high impact). However, they should not be a cause for concern, insofar as they have documented controls in their respective Opinions. At December 2019 closing, there have not been any loss events due to Operational Risk.

Results of the events of economic losses.

During the year 2019, 58 loss events were accounted for due to operational risk with a likely impact of \$7.33. The monthly average was five events with an amount of \$0.61.

Month 2019	Number of events	Likely economic Impact	% Of LEI (IEP) each month
January	7	0.74	10.052%
February	8	3.35	45.664%
March	6	0.63	8.655%
April	4	1.27	17.368%
May	2	0.00	0.000%
June	4	0.02	0.220%
July	10	0.00	0.000%
August	4	0.00	0.032%
September	3	0.00	0.016%
October	2	0.90	12.235%
November	5	0.40	5.514%
December	3	0.02	0.244%
Total	58	7.33	100.00%

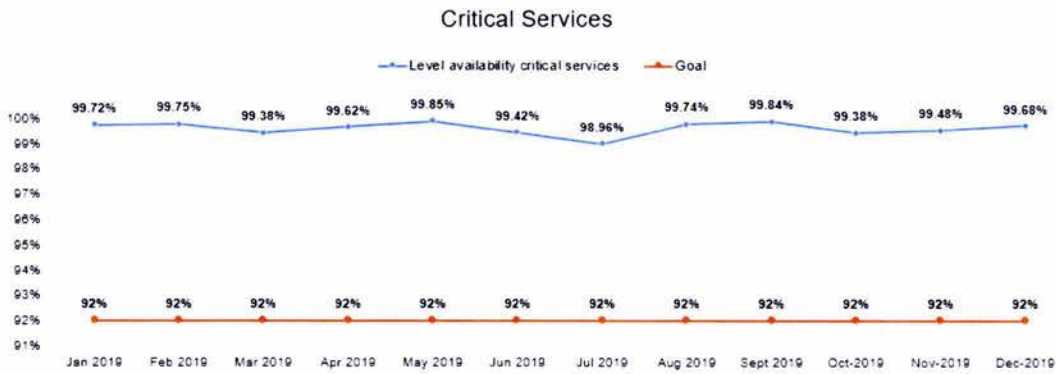
* Due to the fact that there were periods when the probable economic impact was very small and it is expressed in millions, the figure is not necessarily shown

The consumption of the limit of the events of economic loss at the end of each month of year 2019 was within the established parameters, with the exception of February where it held an exposure of \$3.35.

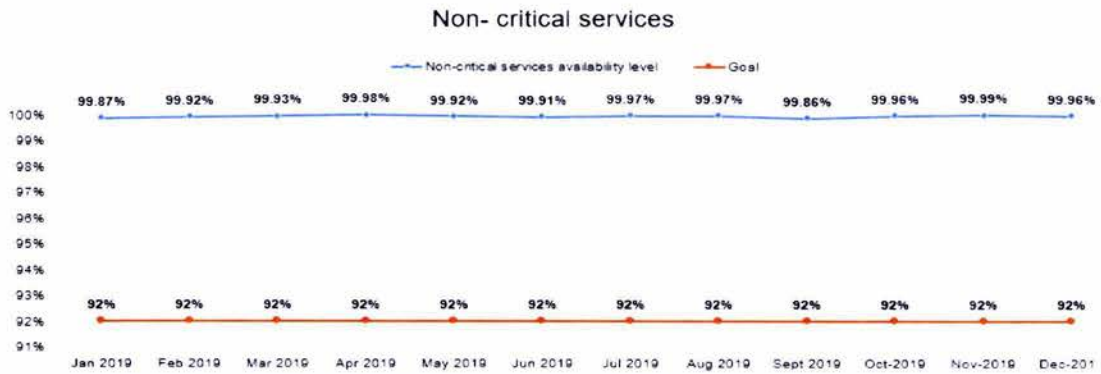
Result of technological risk indicators

During the twelve months of 2019, the indicator level of security to the network had zero intrusions, the indicator of recovery of critical services under disaster drills had 100% of behavior, likewise, the indicator of detection and blocking of virus to the network had zero impacts. The quarterly and monthly average of these three risk indicators were located in the defined goal.

The behavior of the indicator of availability of critical services in the twelve months of year 2019 is as follows:



The behavior of the availability of non-critical services indicator in the twelve months of the year 2019, is as follows:



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

During the year 2019, annual average and quarterly average behavior of the indicators; Availability of critical services and the availability of non-critical services were as follows:

T.R. indicator description.	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May 2019	June 2019	July 2019	Aug 2019	Sept 2019	Oct. 2019	Nov 2019	Dec 2019	Prom. Monthly 2019
Availability level of critical services	99.72%	99.75%	99.38%	99.62%	99.85%	99.42%	98.96%	99.74%	99.84%	99.38%	99.48%	99.68%	99.57%
Availability level of non-critical services	99.87%	99.92%	99.93%	99.98%	99.92%	99.91%	99.97%	99.97%	99.86%	99.96%	99.99%	99.96%	99.94%

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

Result of the legal risk

At the end of December 2019, the statement that keeps the record of potential losses in terms of legal risk is:

Type of lawsuit	Contingency	Provision	Provision / Contingency	Income loss	Results / Provision
Total (1+2+3+4)	211.51	56.84	26.87%	11.25	19.79%
1) Labour nature	44.46	27.52	61.91%	10.84	39.40%
2) Litigation portfolio	11.86	10.84	91.37%	0.40	3.71%
3) Trusts	155.19	18.48	11.91%	0.00	0.00%
4) Treasury and securities trading	0.00	0.00	0.00%	0.00	0.00%

Figures in millions of pesos, valued at an exchange rate of \$18.8642

1. The contingency of the Labor Portfolio reports an amount of \$44.46, which had an increase of 28.73% with respect to the closing of the previous quarter that is equivalent to an amount of \$9.92. The provision reports an amount of \$27.52, which had an increase of 38.02% with respect to the closing of the previous quarter, which is equivalent to an amount of \$7.58. The movement in the Contingency and Provision is derived mainly from the update in the expectation of the demand and the amounts demanded according to the law.

During fiscal 2019, a final ruling was handed down on 12 of the labor lawsuits filed against the Institution, of which it is important to highlight:

- 7 indirect labor lawsuits, all of which had favorable rulings handed down for the Institution.
- 3 direct labor lawsuits with favorable rulings handed down that absolved Nacional Financiera, S.N.C. From benefits claimed in the amount of \$8.8 million pesos.

Rulings handed down against the Institution were the result of two direct labor legal proceedings with judgments for the plaintiff in the amount of \$4.08 million pesos.

2. The litigation portfolio reports an amount of \$11.86 million pesos, that had a 5.21% decrease with respect to the prior year end closing, which is equivalent to an amount of 0.65 million pesos. A judgment for the defendant was handed down in benefit of Nacional Financiera, S.N.C. with regard to the legal procedure filed by Jose Cruz Avila Camacho against the Institution in reference to the amount of 3.58 million pesos, which the plaintiff intended to have the final non-appealable sentence finally reduced to \$1. The voluntary dismissal or amount against the Institution was successfully obtained and the matter was totally concluded in November 2019. Likewise, the lawsuit filed by Rosalia De La Paz Leon against Nacional Financiera, S.N.C. regarding the adverse possession of a real property awarded to FIDERCA, whereby the Judge refused to have SAE and FIDERCA join to the lawsuit. However, the motions for appeal and amparos filed by the three entities, and Nacional Financiera, S.N.C. was finally ordered to pay costs. That order was successfully reduced and any other action and amount against the Institution was withdrawn. The Institution is currently waiting for the court records and dismissal of the proceeding in order to completely conclude the matter. 67 non-labor lawsuits filed against Nacional Financiera, S.N.C. were concluded in fiscal 2019. Favorable rulings were handed down in 100% of them and the Institution was absolved of the total amount claimed.
 - 63 corresponding to unquantifiable benefits.
 - 3 lawsuits in which benefits were claimed in the amount of \$4.85 million pesos.
 - One lawsuit in which benefits were claimed in the for amount of \$5.04 million dollars.
3. The trust contingency portfolio reports an amount of 155.19 million pesos, which had a 79.77% increase with respect to the prior year end, which is equivalent to an amount of 68.87 million pesos. The provision for Trusts underwent a 4.19% decrease, which is equivalent to the amount of 0.81 million pesos with regard to the prior year. The movement in the contingency was the result of the lawsuit filed by Enrique Perez Quintana against Nacional Financiera, S.N.C., as trustee of the trust CASSCH. A sentence was handed down whereby Nacional Financiera, S.N.C. was ordered to pay 259.9 million pesos in the ancillary proceeding of settlement of damages filed by the plaintiff, which is currently being challenged through an amparo proceeding filed by this Institution. The amount of damages, among other irregularities, are determined on amounts that CASSCH (not Nacional Financiera, S.N.C.) was ordered to pay in various lawsuits. The amount of the tangible damage is determined based on presumed income that the plaintiff stopped receiving, even when future acts are involved whose realization is uncertain.

At the end of December 2019 there is a contingency of approximately \$211.51, a provision that amounts to \$56.84 and an effect on income of \$11.25.

Non-quantifiable risks

Results in the affectations to the patrimonial assets of the Institution

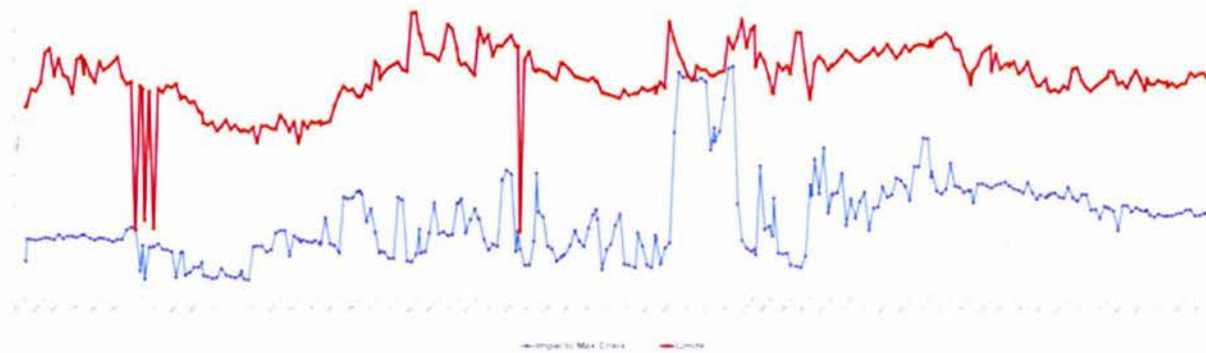
During the year 2019, one claim was reported that affected the patrimonial assets of the Institution in the branch related to electronic and diverse equipment, with an estimated amount of \$ 667 Mexican pesos

Strategic risk

During the year 2019, at least quarterly monitoring of the compliance behavior of senior management goals has been carried out to identify, in an expert manner, the main risks in order to mitigate them and make decisions that do not cause failure to comply with the Institution's goals.

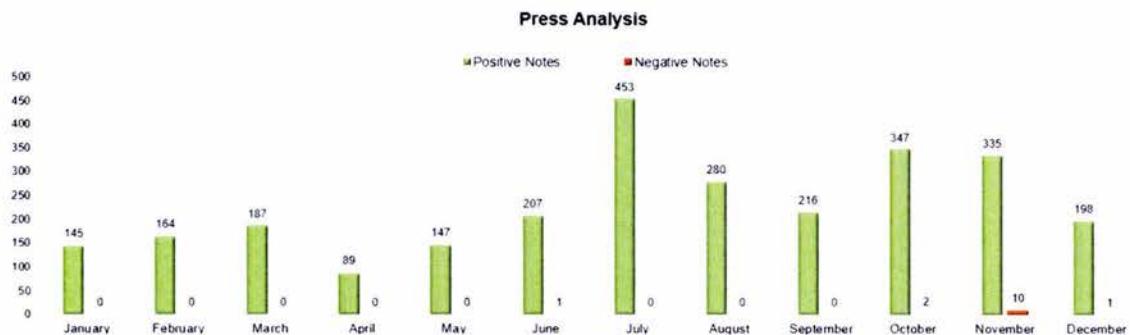
Business risk

During the year 2019, the indicators defined by management for this risk were monitored, through market risk, reports, stressing that there are no variances out of the established limit:



Reputation risk

During the year 2019, the Social Communication Management – Marketing and Business Positioning Directorate met the minimum requirements in terms of reputation risk issued by the Banking Commission in the Provisions, additionally they monitored events that affect the negative perception that is held both internally and externally on a monthly basis, analyzing the positive and negative notes via printed, electronic communication channels, internet portals and state information.



Ratio leverage

The information related to leverage is disclosed with figures as of December 2019, in compliance with the Resolution that modifies the general provisions applicable to credit institutions, published by Diario Oficial de la Federación (Official Gazette) on June 22, 2016, article 2 Bis 120, articles 180, 181 and annex 1 - O Bis:

**TABLE I.1
STANDARDIZED DISCLOSURE FORMAT FOR THE LEVERAGE RATIO**

REFERENCE	CATEGORY	AMOUNT
Exposures in the balance		
1	Items on the balance sheet (excluding derivative financial instruments and repurchase and securities lending operations -SFT by its acronym in English- but including the collateral received as guarantee and recorded in the balance sheet	508,912
2	(Amounts of assets deducted to determine the level 1 of Basel III capital)	-
3	Exposures within the balance sheet (net) (excluded derivative financial instruments and SFT, sum of lines 1 and 2)	508,912
Exposure to derivative financial instruments		
4	Current replacement cost associated with all operations with derivative financial instruments (net of the margin of variation in admissible cash)	-
5	Amounts of additional factors due to future potential exposure, associated with all operations with derivative financial instruments	2,271
6	Increase in collateral contributed in operations with derivative financial instruments when said collaterals are derecognized from the balance sheet in accordance with the operating accounting framework	N.A.
7	(Deductions to accounts receivable for variation margin in cash contributed in operations with derivative financial instruments)	-
8	(Exposure due to transactions in derivative financial instruments on behalf of clients, in which the settlement partner does not grant its guarantee in case of breach of the obligations of the Central Counterparty)	N.A.
9	Adjusted notional cash amount of the credit derivative financial instruments subscribed	N.A.
10	(Offsetting made to the adjusted notional cash of the credit derivative financial instruments subscribed and deductions of the additional factors by the credit derivative financial instruments subscribed)	N.A.
11	Total exposure to derivative financial instruments (sum of lines 4 and 10)	2,271
Exposures for financing transactions with securities		

12	Gross SFT assets (without recognition offsetting), after adjustments for accounting transactions for sales	53,381
13	(Accounts payable and receivable from SFT compensated)	- 43,831
14	Counterparty Risk Exposure by SFT	398
15	Exposures by SFT acting on behalf of third parties	-
16	Total exposures from securities financing transactions (sum of lines 12 to 15)	9,948
Other off-balance sheet exposures		
17	Off balance sheet exposures (gross notional amount)	191,074
18	(Adjustments for conversion to credit equivalents)	- 171,967
19	Items out of balance (sum of lines 17 and 18)	19,107
Capital and total exposures		
20	Tier 1 capital	31,377
21	Total exposures (sum of lines 3, 11, 16 and 19)	540,239
Leverage ratio		
22	Basel III leverage ratio	5.81%

TABLE II.1
ADJUSTED ASSETS AND TOTAL ASSETS COMPARATIVE

REFERENCE	DESCRIPTION	AMOUNT
1	Total assets	577,405
2	Adjustment for investments in the capital of banking, financial, insurance or commercial entities that are consolidated for accounting purposes, but are outside the scope of regulatory consolidation	-
3	Adjustment related to trust assets recognized in the balance sheet in accordance with the accounting framework, but excluded from the exposure measure of the leverage ratio	N.A.
4	Derivative financial instruments adjustment	- 12,840
5	Repurchase/resell agreements and securities lending transactions adjustment	- 43,433
6	Adjustment for items recognized in the balance sheet	19,107
7	Other adjustments	-
8	Exposure of the leverage ratio	540,239

TABLE III.1
RECONCILIATION OF TOTAL ASSETS AND EXPOSURE WITHIN THE BALANCE

REFERENCE	CONCEPT	AMOUNT
1	Totales assets	577,405
2	Derivative financial instruments transactions	- 15,111
3	Repurchase/resell and securities lending transactions	- 53,381
4	Trust assets recognized in the balance sheet in accordance with the accounting framework, but excluded from the exposure measure of the leverage ratio	N.A.
5	Exposures in the Balance	508,912

TABLE IV.1
MAIN CAUSES OF THE MAJOR VARIATIONS OF THE ELEMENTS
(NUMERATOR AND DENOMINATOR) OF LEVERAGE RATIO

CONCEPT/QUARTER	Nov 19	Dec 19	VARIATION (%)
Basic capital	32,688	31,377	-4.0%
Adjusted assets	526,439	540,239	2.6%
Leverage ratio	6.21%	5.81%	-6.5%

27. RECENTLY ISSUED FINANCIAL REPORTING STANDARDS-

The amendment to transition Article four of the Annual Temporary Tax Regulations (RMF, for its acronym in Spanish) was published in the official gazette on November 4, 2019, which modifies the general provisions applicable to lending institutions published on December 27, 2017. It was modified by an amending Resolution that modifies the provisions referred to above, published on November 15, 2018. It sets forth that in order for lending institutions to be able to adjust their accounting information systems, it is advisable to extend the period for the application of Financial Reporting Standards (MX FRS) issued by the Consejo Mexicano de Normas de Información Financiera, A.C., in conformity with the following:

Financial Reporting Standards B-17 “Determination of fair value”, C-3 “Accounts receivable”, C-9 “Provisions, contingencies and commitments”, C-16 “Impairment of financial instruments receivable”, C-19 “Financial instruments payable”, C-20 “Financial instruments for collecting principal and interest”, D-1 “Revenues from contracts with customers”, D-2 “Costs of contracts with customers”, and D-5 “Leases”, referred to in paragraph 3 of Criterion A-2 “Application of particular standards” of Exhibit 33 will become effective on January 1, 2021.

28. EVENTS AFTER THE REPORT DATE

On December 31, 2019, the Ministry of Finance and Public Credit (SHCP) made a capital contributions to the Institution in an amount up to \$5,888. The contribution to capital stock was further authorized in an amount up to \$5,888 at the meeting of the Board of Directors held on January 31, 2020.

29. APPROVAL OF THE FINANCIAL STATEMENTS

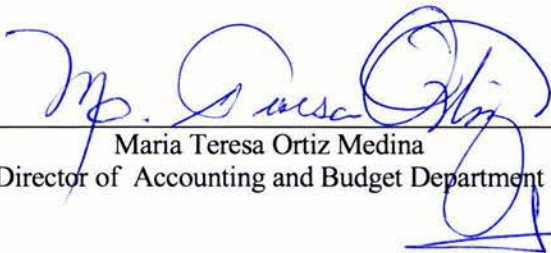
On March 5, 2020, the officers who signed the consolidated financial statements, authorized the issuance of the accompanying consolidated financial statements and related notes. These accompanying notes are part of the consolidated financial statements at December 31, 2019 and 2018.



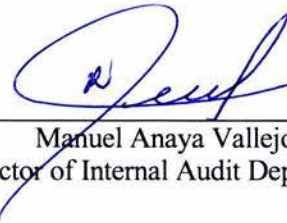
Eugenio Francisco Domingo Najera Solorzano
Chief Executive Officer



Jose Alberto Gomez Sandoval
General Director of Administration and
Finance



Maria Teresa Ortiz Medina
Director of Accounting and Budget Department



Manuel Anaya Vallejo
Director of Internal Audit Department



ANNEX C
DIRECTORY OF
REGIONAL AND
OVERSEAS OFFICES

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Abasolo 233, Esq. con Jiménez Sur, Col. Centro,
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THE INFORMATION IN THIS
REPORT WAS COMPILED BY
THE FINANCIAL PLANNING
AND PROGRAMING
DEPARTMENT. EDITING
WAS OVERSEEN BY THE
MARKETING AND BUSINESS
POSITIONING OFFICE.



ANNUAL
REPORT
2019

Aniversario



