



nacional financiera

ANNUAL
REPORT
2020

BOARD OF DIRECTORS AND COMMISSIONERS ON DECEMBER 31, 2020

SERIES "A" ADVISERS

HOLDERS

ARTURO HERRERA GUTIÉRREZ

Secretary of Finance and Public Credit and
Chairman of the Board of Directors

GABRIEL YORIO GONZÁLEZ

Deputy Secretary of Finance and Public Credit

GRACIELA MÁRQUEZ COLÍN

Secretary of Economy

NORMA ROCÍO NAHLE GARCÍA

Secretary of Energy

JOSÉ LUIS NEGRIN MUÑOZ

General Director of Financial System Affairs
Bank of Mexico

TO BE APPOINTED

Head of a Federal Public Office

DEPUTIES

SARA SANDIN OREA

Head of the Development Banking Unit
Secretariat of Finance and Public Credit

JOSÉ DE LUNA MARTÍNEZ

Head of the Public Credit Unit
Secretariat 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

SERGIO OMAR SALDAÑA ZORILLA

Person in charge of addressing the affairs
concerning the Subsecretariat of Electrical Power
Secretariat of Energy

HÉCTOR DESENTIS MONTALBÁN

Director of Promotion Financial Intermediaries
Bank of Mexico

TO BE APPOINTED

Deputy Head of a Federal Public Office

SERIES "B" ADVISERS

HOLDERS

TO BE APPOINTED

FRANCISCO ALBERTO CERVANTES DÍAZ

President of the Confederation of Industrial Chambers of Mexico (CONCAMIN)

JOSÉ MANUEL LÓPEZ CAMPOS

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

DEPUTIES

EDUARDO RAMÍREZ LEAL

President of the Mexican Chamber of Construction (CMIC)

TO BE APPOINTED

GUSTAVO ADOLFO DE HOYOS WALTHER

President of the Mexican Employers Association (COPARMEX)

COMMISSIONERS

HOLDERS SERIES "A"

SANDRA ANEL VILLANUEVA LEAL

Delegate and Principal Public Commissioner of Finance
Secretariat of Public Service

DEPUTIES SERIE "A"

GABRIEL BASILIO NAVARRETE

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

BOARD OF DIRECTORS SECRETARY OFFICE

PERLA LILIANA DE LA PEÑA AMANTE

Secretary of the Board of Directors

ABRAHAM OCTAVIO GARCÍA MONTAÑO

Deputy Secretary of the Board of Directors

SERIES "B" INDEPENDENT ADVISERS

THERE ARE ONLY INDEPENDENT HOLDER ADVISERS

MARÍA DEL CARMEN DÍAZ REY-CABARCOS

Independent Professional

JOSÉ SALVADOR MARTÍNEZ CERVANTES

Independent Professional

HOLDERS SERIE "B"

TO BE APPOINTED

DEPUTIES SERIE "B"

IGNACIO NÚÑEZ ANTA

Comptroller and Manager of Grupo Financiero Anáhuac

OFFICER ATTENDING SESSIONS OF THE BOARD OF DIRECTORS ON DECEMBER 31, 2020

CARLOS NORIEGA ROMERO

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 Management and Finance

MARIO RODRÍGUEZ MONTERO

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



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INSTITUTIONAL MESSAGE

In **2020**, both **México** and the world faced one of the greatest challenges of this century caused by the **SARS-CoV-2 (COVID19)** pandemic.

The sanitary crisis, both domestic and abroad, resulted in a major economic and financial contraction in all countries, as the rapid spread of the virus caused the temporary closing of productive and economic activities. However, this temporary paralysis, in turn, permitted the redesign of technological and labor organization schemes, both in the public and private sectors. This redesign allowed **Nacional Financiera (Nafin)** to continue its operations.

In this unprecedented new world context, during **2020**, Nafin maintained its essential business and management operations with **clear strategies to both protect the physical integrity and health of its personnel and make institutional operations feasible**. These strategies lead to major results and achievements in its business lines and management, mainly due to the commitment of its personnel to achieve strategic goals and objectives, and due to a clear strategic direction and efficient management systems, and quality management and accountability procedures. These, coupled with information and communication systems, guaranteed the continuity of the operations of the Bank.

The following are some relevant achievements and data from that period:

At the international level, economic growth estimate for 2020 is **-4.3%**, because the initial contraction of advanced economies was less severe than expected. However, recovery has been affected by the increase of **SARS-CoV-2 (COVID-19)** infections, and is under a high degree of uncertainty, in spite of the support from vaccination in many countries.

In financial terms, during **2020** the net worth balance of the Institution reached **40,504 million pesos** at year's end, a nominal growth of **6.8%** vs the previous year's balance. Resources of **435,083**

million pesos were channeled to the private sector through the *Cadenas Productivas* [Productive Chains], *Descuento Tradicional* [Traditional Discount], *Micronegocios y Equipamiento* [Microbusinesses and Equipment] programs, and the bank's Securities Scheme and guaranteed credit. Likewise, **182,952 million pesos** have been apportioned through the Productive Chains program, producing a balance of **39,478 million pesos**. Sector-based programs had a balance of **30,174 million pesos**.

During **2020**, **139,000** entrepreneurs and business owners have benefited from the Business Training and Technical Assistance Program with courses, workshops, conferences, internships, work meetings and technical assistance.

Sector-based programs had a balance of **14,704 million pesos**, which represents **66%** of the portfolio.

To boost the Stock Markets, a **300 million pesos** financing was 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. On the other hand, five capital calls were **addressed** during the year for an amount of **3.05 million US dollars** which correspond to a bilateral fund that promotes energy and telecommunication companies, in which **Nafin** holds stocks.



At the close of 2020, the portfolio of Financial Agent in execution consisted of 11 loans, for a total amount of 1,025.4 million US dollars, and five donations, for a total amount of 34.4 million US dollars. Three of the 11 loans correspond to the Inter-American Development Bank (IDB), five to the International Bank for Reconstruction and Development (IBRD, the original World Bank institution), and three to the International Fund for Agricultural Development (IFAD), while out of the five donations, four are from the IBRD and one from the IFAD.

On the other hand, during **2020**, the **Treasury** of the Institution continued with its priority activities on the subject of the efficiency of raising strategies, determination of transfer prices, management of portfolios and interest rates risk and liquidity for hedging the Institution's balance. The foregoing intends to support the institutional goals regarding the expansion of access to financing,

the development of financial markets and projects in high-impact sectors, and contribute to the financial profitability that ensures the long-term sustainability of the Bank.

Nacional Financiera became the country's top trust in terms of the value of the managed trust assets, and remained on top until the third quarter of **2020**, since in October, **CI Banco** acquired the trust division of **Deutsche Bank** and became the top trust in Mexico. However, Nafin remains both the top trust of the Federal Government, concentrating over 71% of the assets managed by the development banking institutions, and the main executing arm of public policies that employ this instrument.

Regarding its **management, Nafin** has **strengthened its processes and human resources**, purchases and computing processes systems, by balancing the specific needs of the Institution with the operational provisions issued by the autho-



rities regarding management, austerity, combating corruption, and likewise, the provisions associated with the management of the sanitary emergency caused by **SARS-CoV-2 (COVID-19)**. Likewise, in this context, all **Internal Comptroller, Internal Audit and Internal Control Body** processes are efficiently managed in accordance with the provisions applicable thereto.

To summarize, in **2020, Nacional Financiera** implemented the necessary measures to plan for and face present and future challenges inherent to the sanitary and economic contingency arising from the **SARS-CoV-2 (COVID-19)** virus. This was done by prioritizing the health of its personnel and protecting its financial, operational and management strength, to continue supporting the activities of Mexican businesses in a timely fashion and in accordance with the strategies outlined by the **Federal Government**.



01

**ECONOMIC
ENVIRONMENT**

WORLD'S ECONOMY

Economic growth estimate for 2020 is **-4.3%**, because the initial contraction of advanced economies was less severe than expected. However, recovery has been impacted by the increase of SARS-CoV-2 (COVID-19) infections, and is under a high degree of uncertainty, in spite of the support from vaccination in many countries.

In 2020, advanced countries shrank by **-5.4%**, and emerging and developing countries by **-2.6%**, a drop from **1.6%** and **3.6%** growth achieved in 2019, respectively. In the G-7 group, the United States of America shrank at **-3.6%** growth rate (down from a **2.2%** growth) while the Eurozone shrank from **1.3%** to **-7.4%**. Among developing economies, China was the least impacted nation, with a **2.0%** growth rate, down from **6.1%** in 2019. India, on the other hand, which grew by 4.2% the year before, dropped to a growth rate of **-9.6%**. After the sudden drop of the Economy caused by the effects of **COVID-19** and the confinement measures, the recovery during the year's third and fourth quarters has been limited by the recent increase in infections. Therefore, many international organizations like the World Bank consider that growth is still trending downward, and that the risks thereto may deepen the recession or delay recovery. Among others, the following risks stand out: the continuation of the pandemic, vaccine deployment delays, reduced support policies, offer restrictions in some countries, withdrawal from monetary stimuli, high indebtedness levels and trade disputes. While activities have gradually reopened around the world and recently vaccination is taking place in many countries, the damage to various sectors of the Economy and the weakness of aggregate demand components would lead to an even slower recovery. Next year, the foregoing latent risks may contribute to environment of heightened uncertainty.



Country/Region	Level at the end of 2020	Variation with respect to close 2019 (bp)
United States	0.25%	-150
Eurozone	0.00%	No change.
United Kingdom	0.10%	-65
Japan	-0.10%	No change.
Canada	0.25%	-150
Australia	0.25%	-50
New Zealand	0.25%	-75
Mexico	5.00%	-225
Brazil	2.25%	-225
Chile	0.50%	-125
Peru	0.25%	-200
India	4.00%	-115
Turkey	8.25%	-375
Russia	4.50%	-175
Nigeria	12.50%	-100
Indonesia	4.25%	-75
South Africa	3.75%	-275
Poland	0.10%	-140
South Korea	0.50%	-75

The labor markets have been strongly impacted by the temporary or even permanent closing of businesses. After unemployment increased between March and April, there has been a slow recovery for the remainder of the year. Unemployment rates in many countries reached levels unseen since the Great Depression. Specifically, in the United States **9.4** million jobs were lost, which was reflected in an average unemployment rate of **6.7%**, which peaked in April with **14.8%** and had previously closed at **3.6%** in 2019. On the other hand, the unemployment rate in the Eurozone went from **7.4%** in 2019 to **8.3%** in November. In Japan, it reached **2.9%** (as of November), up from **2.2%**, and reached **4.9%** on October in the United Kingdom, vs **3.8%** at the close of 2019.

Inflationary pressures have extinguished in most of the world's regions, in the face of the economic collapse and weak recovery. Energy prices had a slight upturn, considering the rise in oil prices during the second semester of the year. 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 **1.4%**, down from **2.3%** in 2019, while the core inflation, that is, discounting energy and food prices, went from **2.3%** to **1.6%**. On the other hand, inflation as measured by the prices index implicit in the Personal Consumption Expenditures (**PCE**), the data for which the Federal Reserve System (FED) has a target of **2.0%**, ended in **1.1%**, down from **1.6%** in 2019.

In comparison with other regions, inflation in Japan went from **0.8%** to **-1.2%**; in the Eurozone, from **1.3%** to **-0.3%**; in the United Kingdom, from **1.3%** to **0.6%**; and in Canada, from **2.2%** to **0.7%**. In most emerging economies, prices had a slight upturn at year's close: Brazil from **4.3%** to **4.5%**; Chile, remained at **3.0%**; Peru, from **1.9%** to **2.0%**; China, from **4.5%** to **0.2%**; Russia, from **3.0%** to **4.9%**; India, from **7.4%** to **4.6%**; Colombia, from **3.8%** to **1.6%**; South Africa, from **4.0%** to **3.1%**; Poland, from **3.4%** to **2.4%**, and South Korea, from **0.7%** to **0.5%**.



The weak economic recovery, the absence of inflationary pressures and limited growth of labor markets were the reasons most central banks argued to continue monetary ease measures. The FED lowered its reference rate by **150** base points (bp), which for the year remained between **0.00%** and **0.25%**. Some of the central banks of other **G-7** countries modified their rates in similar fashion; moreover, most have continued with unconventional monetary policy actions, such as asset purchase programs. Conversely, central banks from emerging markets carried out much more aggressive actions, which appear in the attached table.

Country/Region	Level at the end of June 2020	Variation with respect to close 2019 (bp)
United States	0.25%	-150
Eurozone	0.00%	No change.
United Kingdom	0.10%	-65
Japan	-0.10%	No change.
Canada	0.25%	-150
Australia	0.10%	-65
New Zealand	0.25%	-75
Mexico	4.25%	-300
Brazil	2.00%	-250
Chile	0.50%	-125
Peru	0.25%	-200
India	4.00%	-115
Turkey	17.00%	500
Russia	4.25%	-200
Nigeria	11.50%	-200
Indonesia	3.75%	-125
South Africa	3.50%	-300
Poland	0.10%	-140
South Korea	0.50%	-75



MEXICAN ECONOMY

During the third quarter of the year, the final numbers of the **Gross Domestic Product (GDP)** point to a contraction of **-8.6%** in comparison with the same quarter from past year. There was improvement compared with the previous quarter, which pointed to an annual **-18.7%** contraction.

Production in the primary sector grew by **7.7%**, but the secondary and tertiary sectors fell **-8.8%** respectively, after the sudden drops observed during the second quarter.

From January to November, industrial activity had an annual average decline of **-10.7%**: Mining dropped **-1.0%** on average, construction **-17.8%** and manufacturing activities **-11%**, respectively.

Demand also had an important downturn. As of October, an annual average decline of **-19.7%** was observed in investment, with a contraction of **-20.9%** in machinery and equipment investing and **-18.7%** in construction investment. The annual consumption growth rate went from averaging **0.9%** in 2019 to **-12.0%** from January to October 2020. Supported by manufacturing, exports had a limited improvement during the second semester of the year. From January to November, the annual average rate was **-10.6%** (**2.3%** for all 2019), while imports averaged **-17.1%** (**-1.7%** the previous year). The recovery of the global economy boosted Mexican exports; however, the weak internal demand reflected the decrease in import activities.

For the year, the unemployment rate averaged **4.4%**, which is higher than the **3.5%** rate observed in 2019. On the other hand, the number of workers insured by the **Mexican Social Security Institute (IMSS, in Spanish)**, accounting both permanent and urban eventual workers, totaled **19,513,765** by yearend closing, which amounts to a loss of **655,116** jobs and a contraction of **-3.2%**. Remunerations, as measured by the Daily Wages Associated with Workers Insured by the IMSS, grew by **7.9%** yearly in nominal terms by yearend closing, while its real ex-ante variation (that is, compared to the inflation expectation for 12 months) grew by **4.2%**.

Family remittances from abroad continued to be an important factor for the Mexican economy. In spite of the big contraction and subsequent recovery of the U.S. economic activity, their performance has been favorable. From January to November, they reached a maximum historical by totaling **36,946 million US dollars**, an increase of **10.9%** compared to the same period in 2019. The value in pesos of the remittances reached **801,855 million pesos**, which represents a rise in comparison to the value accrued in 2019, of **24.9%** in nominal terms and **20.8%** in real terms.

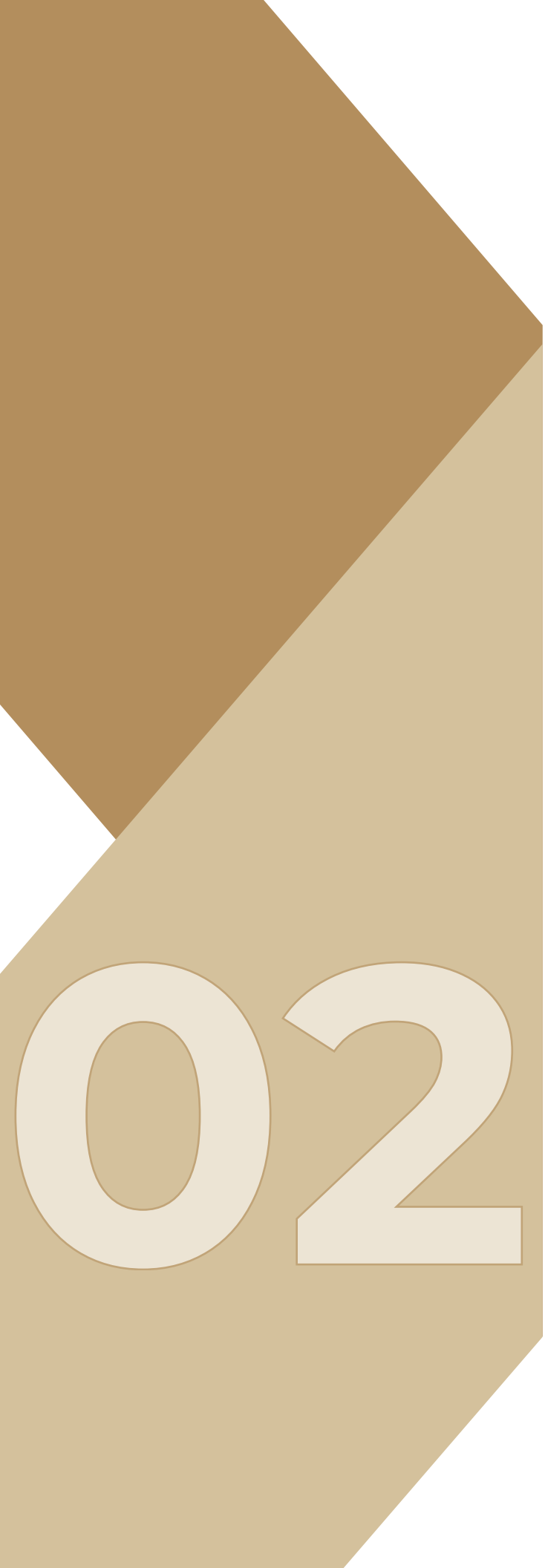
Annual general inflation stayed within the variability range of **Bank of Mexico (Banxico)** and closed the year at **3.15%**, up from **2.83%** in 2019. A downward trend in agriculture and livestock, slight increases in power supplies due to gasoline and LP gas prices,



lower pressure on underlying inflation due to the reduced growth rate of food and services prices, mainly, were some of the factors that contributed to the foregoing results.

In turn, underlying inflation went from **3.59%** by the close of 2019 to **3.80%** annual in 2020. This behavior reflected upwards and downwards pressures. On one hand, increases in non-food goods after the big reductions observed during the El Buen Fin promotional period [a 12 days nationwide special sales period in mid-November] and increases at a lower rate for foods, and on the other hand, the weakness of services prices as a reflection of a greater slack of the Mexican economy.

After the rate closed at **7.25%** in 2019, Bank of Mexico lowered the target for the funding rate seven times during the year, thus the monetary policy rate closed at **4.25%**. It is worth mentioning that the foregoing decisions display a neutral and cautious attitude, derived from the higher uncertainty about the recent behavior of general and underlying inflation and their trajectories versus transitory shocks that may display certain persistence and increasing risks with the possibility of becoming realized. In its latest communications, Bank of Mexico explained that it will implement the actions deemed necessary based on the information available, so the reference rate is consistent with the ordered and sustained convergence of the general inflation with its goal during the period of operation of the monetary policy.



02



PROMOTION

PROMOTION PROGRAM

The **total issuance of credit and securities** as of December of 2020 was **436,986 million pesos**, a decrease of **10.2%** vs last year's same period.

CREDIT AND GUARANTEES TO PRIVATE SECTOR PROGRAM

The variety of products offered by the Institution through its Productive Chains, Traditional Discount, Microbusiness and Equipment programs, as well as its Securities Scheme and the credit guaranteed by the latter, allowed to funnel resources to the private sector for **435,083 million pesos**.

Through the **second tier**, Productive Chains participated by issuing credit for **121,303 million pesos**, Microbusiness and Equipment contributed with **29,490 million pesos** and Traditional Discount contributed with **157,012 million pesos**.

PRODUCTIVE CHAINS PROGRAM

From January to December 2020, **182,952 million pesos** have been distributed through the **Productive Chains Program**, producing a balance of **39,478 million pesos**.

Within this program, the government sector registered accounts payable for **151,643 million pesos**, **40%** of which were paid early. This allowed to support **3,711** suppliers that exercised the benefit of early payment through financial factoring.

In turn, the private sector registered accounts payable for **183,189 million pesos**, **67%** of which were paid early. This allowed to support **14,517** suppliers that exercised the benefit of early payment through financial factoring.

From January to December 2020, the main indicators of the program were as follows.



- 390 chains with operations, in benefit of 18,228 businesses.
- More than 1.9 million papers were operated.
- The index of operations vs publications grew from 50% to 54% in respect to 2019.
- The balance from the Federal Government segment grew 4% vs last year.
- By attracting new chains, the balance of state and municipal governments grew by 52% vs last year.
- To date, 36 new chains were registered and 73 chains are at the promotion and implementation stages.

Out of the **total portfolio** of the Productive Chains program there is a recorded decrease of **3%** of the balance and a decrease of **25%** in operations vs last year's same period, due to the economic impact of the **SARS-CoV-2 (COVID-19)** contingency.

Among the more relevant factors, the following stand out:

- The construction sector stopped in accordance to the sanitary contingency measures implemented by the Federal Government.
- The commerce sector reports low sales, as some businesses, like the department store chain Liverpool, closed their doors during months at a time.

Sectors	Balance Dec 2020	Appointment Jan-Dec 2020	Balance Dec 2019	Appointment Jan-Dec 2019	% of Variation of Balance	% of Variation of Appointment
Private sector	26,574	122,984	28,887	143,486	-8%	-14%
Federal Government	11,350	56,736	10,920	96,045	4%	-41%
State and Municipal Governments	1,554	3,232	1,024	3,593	52%	-10%
Total (million pesos)	39,478	182,952	40,831	243,124	-3%	-25%

- The services sector contracted due to the closing of restaurants and other activities deemed non-essential.
- The automobile sector reported a decrease in sales.
- The tourism sector was impacted by indefinite flight restrictions and the closing of hotels and attractions.
- The IMSS stopped publishing since June and paid its suppliers in cash.
- The Mexican Institute of Social Security and Services for Workers of the State (ISSSTE, in Spanish) intermittently published during the year.

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 2020, **13,336 credits** for **22,294 million pesos** (authorized amount). The balance of these programs amounts to **30,174 million pesos**. Per line of action, the main results were as follows:

I. Regional Development

6,495 credits for 12,546 million pesos were issued, which mainly includes:

- **Impulso Nafin+Estados [Nafin+States Incentive program]** (formerly the *Impulso para el Desarrollo Industrial y Regional* [Industrial and Regional Development Promotion] program). This program aims to promote regional economies by facilitating access to financing for Mexican MSMEs, in coordination with the state governments. **6,254 credits** were issued for **12,143 million pesos**.

STATES	GRANTED CREDITS	ALLOCATED AMOUNT (MILLIONS OF PESOS)
NUEVO LEON	1,211	2,386.37
MEXICO CITY	497	1,132.54
ESTADO DE MEXICO	442	992.59
JALISCO	339	761.44
COAHUILA	330	661.17
CHIAPAS	348	542.18
SAN LUIS POTOSI	311	490.98
YUCATAN	248	463.97
MICHOACAN	233	372.79
TAMAULIPAS	269	353.81
QUERETARO	150	334.88
GUANAJUATO	164	315.46
AGUASCALIENTES	169	314.09
VERACRUZ	139	274.76
OAXACA	157	259.46
ZACATECAS	108	223.82
CHIHUAHUA	97	221.29
SONORA	93	212.94
TABASCO	86	199.21
SINALOA	90	190.10
DURANGO	89	169.31
NAYARIT	93	164.94
COLIMA	73	154.81
QUINTANA ROO	67	152.08
MORELOS	71	141.26
CAMPECHE	77	140.78
PUEBLA	76	138.90
GUERRERO	91	135.40
BAJA CALIFORNIA SUR	80	106.90
BAJA CALIFORNIA	40	92.24
TLAXCALA	16	42.10
TOTAL	6,254	12,142.58

- **Economic Impulse and Employment Promotion:** This program promotes regional economic development through financing for MSMEs connected to strategic sectors defined for each state. **179 credits for 313 million pesos** were offered: Baja California (**155 million pesos**), Tlaxcala (**61 million pesos**) and Nuevo Leon (**16 million pesos**).
- **Economic Impulse for the Municipality of Santiago, Nuevo Leon:** This program facilitates financing for micro and small companies connected with the tourism sector, which is the main source of employment in the municipality. **15 credits were granted for 19 million pesos.**
- **Credisuministros Nafin+Empresas:** [Credit for suppliers program]: This program promotes the development of value chains of the private sector and is based on sharing the risk in order to facilitate access to credit to the MSMEs that supply and distribute products to big businesses. **11 credits were granted for 15 million pesos.**

II. Strategic Sectors and others

557 credits for 1,219 million pesos were offered among the following standout programs.

Economic Impulse for the Hotel Sector:

This program provides financing for the working capital needs of hotels, travel agencies and tourist carriers. **7 credits were granted for 38 million pesos** during 2020.



Impulso T-MEC Herramentales:

[USMCA Tools Economic Impulse program]:

This program promotes financing for MSMEs connected with value chains from strategic sectors with the potential to export, enabling to increase their productive capacities in the face of the United States-Mexico-Canada Agreement (USMCA) coming into force. **93 credits were granted for 284 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 of MSMEs. **172 credits were granted for 363 million pesos.**



Textiles, clothing and fashion:

This program provides competitive financing to promote the modernization, innovation and development of new products in the MSMEs of the textiles-clothing-fashion productive chain **113 were granted for 294 million pesos.**



III. Financial Inclusion

5,383 credits for 7,859 million pesos were granted among the following standout programs:

- **Businesswomen Support Programs:** 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. Moreover, it promotes the economic empowerment of women by putting decision-making in their hands. **4,425 credits were granted for 6,549 million pesos.**
- **Young Business Owners Programs:** Program that promotes the entrepreneurship culture among individuals between the ages of 18 and 35 to start new businesses or expand operating businesses. The majority of the companies and the decision-making must be in the hands of young individuals to qualify. **958 credits were granted for 1,310 million pesos.**

IV. Transportation Modernization

568 credits were granted for 511 million pesos.

- **Taxi Replacement in Mexico City:** This program supports the modernization of the taxi fleet in Mexico City and contributes to reduce the emission of pollutants therein, by facilitating financing access to holders of taxi operation permits so they can purchase highly fuel-efficient and hybrid vehicles. **371 credits were granted for 78 million pesos.**
- **Replacement of Public Transportation in Morelos:** This program supports the modernization of the public transportation fleet and contributes to reduce the emission of pollutants, by facilitating access to financing for the replacement of units operating on gasoline and diesel with new vehicles that employ environmentally-friendly fuels (i.e. natural gas). **7 credits were granted for 2 million pesos.**

- **Micro and Small Carrier Businesses:** This program promotes the modernization of vehicle fleet of cargo, passenger transportation and tourism federal public services with no more than 30 units. **98 credits were granted for 170 million pesos**

V. Sustainable Financing

261 credits were granted for 66 million pesos.

- The ***Eficiencia Energética Eco Crédito Empresarial [Eco-Business Credit for Energy Efficiency]*** Program, in its “massive” and “individualized” modes, supports micro and small companies for the acquisition and/or replacement of power-efficient equipment, and the use of renewable sources. **247 credits were granted for 53 million pesos.**
- **C Solar Financing:** This program facilitates access to financing to Mexican companies for the purchase and installation of photovoltaic solar systems with a capacity of up to 500 kW, under the scheme of Clean Distributed Generation. **2 credits were granted for 13 million pesos.**



ALTERNATIVE CHANNELS

This program provides advice to MSMEs and entrepreneurs through the Customer Service Center and the 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 (IF, in Spanish). 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 sale strategies of some Sector-Based Programs through various servicing channels, such as the Customer Service Center and the Outer Promoters Network. The Nafin+States Incentive programs stand out.

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

- **96%** of SMEs are serviced within 5 natural days (from the assignment of cases).
- After the SME confirms its interest in financing, **99%** of the dossiers are prepared in **10** natural days.
- After their preparation, **97%** of the dossiers are sent to the counter of the financial intermediary within the following 5 natural days.

Sector-based programs contributed with **14,704 million pesos** to the balance, which represents 66% of the portfolio reported by the Deputy Directorate of Sector-Based Programs.

II. Promotion of Factoring

This activity generates and implements **strategies of promotion and affiliation to the factoring programs in Productive Chains**, 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 at the close of fiscal year 2020 are as follows:

- Affiliation of **3,156** new suppliers to the Productive Chains Program
- **91%** of the suppliers that published recorded operations.



Likewise, hiring and managing the Customer Service Center are within the scope of their responsibilities.

The main results at the end of 2020 are as follows:

- Servicing **157,153** calls, **62%** of which corresponds to users of the Productive Chains Program.
- The Productive Chains suppliers carried out discounts of their bills via telephone for **9,571 million pesos**, which represents 5.3% of the total operated in the Program.

III. Administration of Electronic Products

This area controls the Administration and Documental Management Platforms, as well as NAFINET, a platform that electronically operates the Productive Chains, Financing to Distributors and Electronic Credit products. Furthermore, it performs the documental review of the dossiers of affiliation to IFs, EPOs and internal areas, and carries out the documentary review of the records of affiliation to the Productive Chains and Sector-Based Programs.

Some of the volumes of the Platforms include the following:



Supervision and follow-up to more than **7,647 average** daily operations (Chains and Credit at Fixed and Variable Rates, Emergent and Microloans) with daily average amounts of more than **1,185 million pesos**.



Servicing and support to more than **71** banking and non-banking financial intermediaries for credit operations and queries.



Funds dispersal to SMEs and financial intermediaries by a monthly average of **746 million pesos** on account of the EPOs, through the Productive Chains.



Implementation of **30** Productive Chains.



Documentary review of 7,599 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, Inadem-Nafin Ecosystem of Entrepreneur Capital, Crowdfunding Project, Mexico Ventures Fund, and IMPI-FUMEC** Patenting Support Program. These portfolios are managed and operated through having a seat in the management boards and stockholder meetings of the companies, investment committees of the funds, and participating in follow-up meetings with the contributing organizations.

The main results as of December 31, 2020 are as follows:

- Conacyt-Nafin Fund.** The total investment of the program was **224 million pesos** in **43** companies. The program is presently in the stage of disinvestment. Disinvestment in **16** businesses for **86 million pesos** was negotiated. **1.4 million pesos** were recovered from that procedure, and the payment for the disinvestment ended with 40% profit additional to the contributed value. The implementation of the Ángeles **Conacyt** Program is in progress, and the Nafin legal department is analyzing the exit of 13 companies with book value.
- Seed Capital Joint Investment Fund.** Capital for **435.5 million pesos** has been committed to **11** investment funds that have supported **106** businesses. To date **3** disinvestments have been carried out for **12.4 million pesos**. **76.2 million pesos** have been directly invested in **16** businesses, out of which there has been **3** successful disinvestments for **23.4 million pesos**.
- Development of the Inadem-Nafin Ecosystem of Entrepreneur Capital.** The total amount of the Program is estimated at **6,603 million pesos** (public and private resources) with a participation of the Entrepreneur Capital Trust Fund for the amount of **1,789 million pesos**, to support **38** investment funds,* which in turn have invested in **265** companies. Two disinvestments from the NAZCA MX-A took place in May 2020, for the amount of **70 million pesos**. It was the first success case of the program, which totaled 18 disinvestments in companies for an amount of **161.9 million pesos**.
- Mexico Ventures Fund.** There are **4** funds in operation with commitments in the amount of 43 million US dollars, equivalent to approximately **993 million pesos.**** As of December 31, 2020, investments were made for 1.2 million US dollars, equivalent to **23.8 million pesos.****
- IMPI-FUMEC-Nafin Patenting Support Program.** This program was cancelled on July 2020 due to the IMPI's (Mexican Institute of Industrial Property) strategy and reduction of budget. However, with the resources generated, the program achieved the following results through the **Fumec [Mexico-United States Foundation for Science], as of September 30, 2020: 24** projects reached the patentability study stage, out of which **12** patents and utility models were obtained.



Notes.

*Currently 38 funds created from the reimbursement of resources from the Impulsa Fund, due to not meeting the objective established in the Program.

**The exchange rate was 19.9087 pesos, according to the Financial Statements of the Entrepreneur Capital Trust at the close of December 2020.

PORTFOLIO BALANCES OF PRIVATE SECTOR CREDITS

At the close of December 2020, the total balance of the private sector credits portfolio, including guaranteed credits, had increased to **399,607 million pesos**, which represents an increase of **15,889 million pesos (3.8%)** compared with the same period of the previous year. Of this amount, the **Securities Program** contributed with **43%**, **traditional credit contributed with 47%**, and **productive chains contributed the remaining 10%**.

BUSINESS TRAINING AND TECHNICAL ASSISTANCE PROGRAM

During **2018-2024**, the **Directorate of Business Development and Technical Assistance (DDEAT, in Spanish)** will continue to train entrepreneurs and MSMEs through the www.nafintecapacita.com online platform; and in person through the **Business Development Center (CEDEM, in Spanish)** and a **Network of Consultants/Instructors** that give conferences, courses, workshops, business development conferences and talks about Nafin and Bancomext [National Bank of Foreign Trade] programs, among others.

The **strategy set out** by the Senior Management of Nafin for the aforementioned period focused, at first, in the professionalization of Non-Banking Financial Intermediaries (**IFNBs**, in Spanish) through online and in person training and technical assistance. At the close of 2020, a guide titled "Incorporation and registration process of a Multiple Purpose Financial Institution

(SOFOM, in Spanish) before the appropriate authorities for the integration thereof to Nafin's network" was developed and published in the community of Non-banking financial intermediaries in www.nafintecapacita.com.

In addition, at the close of 2019 a market research study for the design and development of training for IFNBs was developed, however, on February 2020, the Senior Management of Nafin decided to suspend the project on a temporary basis.

Likewise, the Senior Management defined a strategy to address **various** sectors, therefore, the **DDEAT** has designed and developed contents focused on such sectors, which contribute to solidify and boost the productivity of regional occupations, with basis on the **three themes** of the Training and Technical Assistance Program: **Business Management, Corporate Governance and Energy Efficiency**.

2020 Goal

For the 2020 fiscal year, the Senior Management of Nafin authorized hiring a network of consultants to provide training to business owners in the country's five regions.

Market research to identify the possible suppliers that met the technical, economical and human resources characteristics required to provide training to MSMEs was carried out on February 2020. Out of this research, eight consultancy firms with nationwide coverage were selected. At the close of the 2020 fiscal year, and under instructions from the Senior Management of Nafin, only four out of the eight contracts with the consultancy firms were executed.

From March, and due to the COVID-19 sanitary emergency, the strategic goals of the Training and Technical Assistance Program to service the beneficiaries thereof are as follows for the 2020 fiscal year:

As of December 31, 2020, **139,199** entrepreneurs and/or **MSMEs** business owners were benefitted and assisted through courses, workshops, conferences, internships, work meetings, and technical assistance. **239** beneficiaries attended **14** in-person events;¹ **24,098** beneficiaries of online conferences (webinars),² and through the e-learning platform www.nafintecapacita.com, with more than **40** business development courses, **1** business diagnosis focused on technical assistance and **3** courses for Nafin promoters and personnel, benefitting **114,862** active users (accrued)³ that has attended **251,069** courses.⁴

I. New contents and updating of online courses

From January to December 2020, **30 specific actions** were developed and updated.

Concept	2020 Annual Program	Carried out January - Dec 2020	Progress (%)
In person ^[1]	200	239	120
Online conferences (webinars ^[2])	4,000	24,098	602
Online ^[3] and ^[4]	95,000	114,862	121
Total trained people:	99,200	139,199	140
Notes:			
[1] This item considers the sum of the beneficiaries of in-person training actions such as workshops, conferences, work meetings and/or internships and technical assistance.			
2 This item considers the sum of beneficiaries of training actions such as online conferences and webinars, which are carried with the attendance of users in real-time.			
3 The numbers are accrued from the online platform www.nafintecapacita.com ; moreover, since 2016 the numbers are counted from the active users that attended a course.			
4 Includes the beneficiaries of technical assistance.			
*The DDEAT considers returning to nationwide in-person training activities, observing a safe distance, after the health authorities authorize them, therefore, this number may vary.			

It is worth mentioning the specific actions designed and developed in collaboration with consultants or connected organizations that are part of the training offer of Nafin, in accordance with the following:

- The contents of the online and in-person **course** “Regime of Fiscal Incorporation” were updated.
- There are **five content modules** regarding the association with Bancomext: Mathematics: Understand your finances between the numbers; legal aspects of credit; cost management; fiscal guide for businesses, and corporate governance.

Relevant information about risk avoidance and best business practices for mitigation of and recovery from economic, operational, legal and financial impacts, was designed and developed due to the sanitary emergency. The initiative takes into consideration the following efforts to assist **MSMEs**:

Design, promotion and communication of:

- **The “Business Continuity Plan” online course**, which aims to inform the MSMEs about the importance of prevention and implementation of a continuity plan in the event of a natural disaster, and about how to achieve economic reactivation.
- Launch of the **new online course** “Practical Advice for Minimizing Impacts on Your Business in the COVID-19 Era”, which aims to mitigate operational and economic impacts on businesses as the result of sanitary emergency caused by the SARS-CoV-2 (**COVID-19**) virus.

Design, promotion and provision of nationwide online conferences titled:

- “Business Resiliency”, that aims to provide MSMEs a basic guide to determine specific actions in the event of possible business interruptions due to natural disasters, pandemics, social disturbances (strikes) and industrial espionage, among others.
- “Business Conversations in Times of Change”, which aims to introduce MSMEs to short term actions needed to improve the resiliency of businesses against the impacts from the sanitary emergency.

- “How to Renegotiate in Times of Change”, which aims to educate the MSMEs in the identification of the opportunities of renegotiating their obligations, so they may mitigate the impacts from the sanitary emergency.
- “Nafin Coffee Talks/Experiences that Help Us Adapt to a New Reality”, which aims to educate the MSMEs in the identification of the best operational practices for business continuity, through the exchange of experiences between business owners facing the current situation.
- “Reevaluation of Financial Strategy during Times of Change”, which aims to educate the MSMEs in the identification of critical points in the face of the new economic dynamics, so they may have resources to reevaluate the financial strategy of their business during times of change.
- “Operational Continuity in Times of Change”, which aims to educate the MSMEs in the identification of actions to reestablish the operational processes of their businesses by using the economic reactivation and operational continuity matrix.
- “Sanitary Measures for a Safe Return and Continuity in the Tourism Sector”, which aims to provide specific safety and health measures for the reactivation of tourism economic activities, and any measures of mandatory implementation within the general strategy for the new normalcy.
- “2020 Federal Expenses Budget: Productive Chains and the Government”, which aims to educate the officers and employees of the agencies of the Federal Government and state-owned companies about the mechanisms that facilitate incorporation into Nafin’s Productive Chains Program.
- “Best Practices to Obtain Financing”, which aims to provide attendants with the knowledge of the relevant aspects for analysis of the financial products available in the market.
- **“NOM-051 Mexican Official Standard for general labeling specifications for pre-canned foods and non-alcoholic beverages”**, which

aims to inform about the modifications to the NOM-051 Standard, and its background, specifications, terms and deadlines in order to comply with this regulation.

- Nafin and the Mexican National Council of the Restaurant and Seasoned Food Industry (CANIRAC, in Spanish), in the context of the current sanitary emergency caused by the SARS-CoV-2 (COVID-19) virus, designed, disclosed and implemented, within the national territory, a 7-week **Training and Technical Assistance Program** named “**Program for the Adaptation of the Restaurant Sector to the New Normalcy**”, aimed at owners and managers of restaurants, cafeterias, diners and businesses that prepare and sell food in general, with the purpose of mitigating the economic, legal and financial impacts caused by the pandemic, and informing about the best operational practices and sanitary measures for their businesses to adopt in the face of the new normalcy.

II. Specialized communities

They are a custom-made solution where the connected organizations select the training and technical assistance courses that adapt to the needs of their target audience. At a close of December 2020 there are 69 communities, of which the following stand out: Trucking National Chamber (CANACAR, in Spanish), Tourism Competitiveness Institute (ICTUR, in Spanish), **Agenda 2030** [Sustainable Development 2030 Agenda], Non-banking Financial Intermediaries, **Emprende Tlaquepaque** [Loans program for the city of Tlaquepaque], Bancomext, **Microcréditos para el Bienestar** [Microloans to promote welfare] program, Local Government of the city of Reynosa, the Secretariat of Transportation of Estado de México (SEMOV, in Spanish), The **Empresarios Zacatecanos Comprometidos** Association, and the Microloans program for Welfare.

Likewise, 84 collaboration agreements with public and private organizations for providing training courses and technical assistance were executed. Agreements with public agencies (Economic Development Secretariats [SEDECOS]) from 30 states of the republic and 54 private organizations such as the Mexican Employers Association (COPARMEX in Spanish), National

Chamber of the Transformation Industry (CANACINTRA, in Spanish), the National Chamber of Commerce (CANACO, in Spanish) and the Business Organizations Council of Veracruz, among others, stand out.

III. Associations

Institute for Mexicans Abroad (IME, in Spanish). In the framework of the Financial Education Week at the Mexican Consulates in the United States, coordinated by the **IME** of the Secretariat of Foreign Affairs, in early 2020 a banner about the online Training and Technical Assistance Program for compatriots abroad was developed and promoted. In this regard, and in coordination with the participating organizations, a booklet called **Más vale estar preparado** [Better be ready] promoting Nafin’s www.nafintecapacita.com e-learning platform was issued.

National Commission for the Protection and Advocacy of Financial Services Users (CONDUSEF, in Spanish). Within the framework of the *Ruta de Acompañamiento para la Innovación y Creación de Emprendimientos de Economía Social* [Assistance Route for Innovation and Creation of Social Economy Entrepreneurship] program of the **CONDUSEF**, the “Business model canvas” contents were developed so the attendants can identify how to define a business model that is competitive and profitable in the market.

Secretariat of Economy (SE, in Spanish). The Collaboration Agreement for training of small and medium-sized businesses (SMEs) for the exchange of best practices was executed on July 9, 2019. In the context of the sanitary emergency, there has been an exchange of collaboration.

IV. Meetings to exchange better practices and internships

As of December 31, 2020, based on the current sanitary emergency and the assistance strategy of the **DDEAT** for 2020 in regards to the **exchange of best practices and internships**, it was agreed to develop online contents (webinar) so the universities can learn firsthand and



remotely, through Nafin's training platform (www.nafintecapacita.com), about the best operational practices of the Institution as a development bank. These benefited **17 attendants**, with a level of satisfaction of **100%**, and the following were the subjects addressed:



Functions of development banking.



Institutional mission of Nafin.



Sectors serviced by Nafin.



Financing programs of Nafin.



Training and technical assistance program.

INSTITUTIONAL PROMOTION NETWORK

The Deputy General Directorate of Institutional Promotion, through its Regional Directors and State Representatives Network, is the main liaison of Nacional Financiera with business owners and local governments 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 makes possible

to know and address specific needs of the states and their businesses and identify national strategic sectors and priority occupations at the regional scope.

During 2020, **29,925 million pesos** were operated through this Deputy General Directorate (DGA, in Spanish). Nearly half of this amount corresponded to sector-based programs with state contributions, followed by private and state productive chains. Jointly, these three programs represent 84% of the annual operations.

Programs operated by the Deputy General Directorate of Institutional Promotion during 2020

Programs	Amount in million pesos	%
Sector-based programs with state contributions	12,549	52%
Private Chains	5,039	21%
Stata government chains	2,554	11%
Selective Securities	1,837	8%
Municipal public chains	677	3%
API public chains	599	3%
Molds, dies and tools program	284	1%
IFNB's	218	1%
Transportation	78	0%
Distributor chains	65	0%
Credisuministros program	15	0%
	23,915	100%

I. Sector-based programs with state contributions

The sector-based programs with state contributions are a basic tool for economic development through support to SMEs of the strategic sectors as determined by the state governments. In 2020 and in the context of the COVID-19 pandemics, they were a key element to bring nationwide support.

During 2020, the DGA of Institutional Promotion recorded operations of **12,547 million pesos** in that item. This year, only the Nafin+States Incentive program was active, with progressively more flexible conditions. During the reported period, the **32** states registered operations in this program, which was unprecedented.

Sector-based programs with state contributions operating during 2020

State	Support program for MSMEs impacted by natural disasters (2017 earthquake).	Program to fortify and promote MSMEs from the southeastern states.	Economic Boost and Employment Promotion program.	Impulso Nafin + Estados program	Total
AGUASCALIENTES	314	10			324
BAJA CALIFORNIA	92	155			247
BAJA CALIFORNIA SUR	107				107
CAMPECHE	141			4	145
CHIAPAS	542		3	8	553
CHIHUAHUA	221				221
MEXICO CITY	1,133				1,133
COAHUILA	661				661
COLIMA	155				155
DURANGO	169	4			173
ESTADO DE MEXICO	993	3			996
GUANAJUATO	315	1			316
GUERRERO	135				135
HIDALGO		3			3
JALISCO	761	1			762
MICHOACAN	373			2	375
MORELOS	141		2		143
NAYARIT	165				165
NUEVO LEON	2,386	35			2,421
OAXACA	259		13	61	333
PUEBLA	139				139
QUERETARO	335	7			342
QUINTANA ROO	152	5			157
SAN LUIS POTOSI	491	1			492
SINALOA	190	15			205
SONORA	213				213
TABASCO	199				199
TAMAULIPAS	354	7			361
TLAXCALA	42	61			103
VERACRUZ	275				275
YUCATAN	464				464
ZACATECAS	224	5			229
Total	12,141	313	18	75	12,547



II. Public Productive Chains

The Public Chains program has a double role in economic development. On the one hand, it is a transparency and accountability instrument; on the other, it supports the government's suppliers.

During 2020, **8** Productive Chains from state governments and **10** from municipal governments operated, for amounts of **2,553.6** and **677.2 million pesos, respectively**

Active productive chains of state governments at the end of 2020

Government Chains	Operation (million pesos)
Chihuahua	530.1
Colima	189.1
Durango	469.9
Nuevo León	229.5
Sonora	394.1
Tamaulipas	495.8
Veracruz	38.2
Zacatecas	206.9
Total	2,553.60

Productive chains of municipal governments operating in 2020

Municipalities	Operation (million pesos)
Manzanillo	16.5
Durango	2.8
General Escobedo	113.3
Guadalajara	350.1
Guadalupe	64.9
La Piedad	11.6
Los Cabos	46.3
San Luis Potosí	45.9
Telecomunicaciones de México	0.40
Tlajomulco de Zúñiga	25.4
Total	677.20

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. During 2020 and thanks to the promotional work, 6 Integral Port Administrations (APIs, in Spanish) operated Productive Chains for **589.9 million pesos**.

Productive Chains of Federal APIs operating in 2020

Federal APIs	Operation (million pesos)
Guaymas	0.694
Manzanillo	165.177
Mazatlán	13.599
Topolobampo	0.119
Tuxpan	0.418
Veracruz	418.88
Total	598.9

III. Private Productive Chains

Private Chains continues to be an important product to develop big businesses' suppliers throughout the country, which provides them immediate liquidity by advancing the payment of their accounts receivable. This area managed the implementation of **46** Private Chains, which operated **5,039.3 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. From January to December 2020, resources for **1,838 million pesos** were operated through the Selective Securities network.

V. IFNBs

Non-Banking Financial Intermediaries (IFNB's, 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 financing from commercial banking. During 2020, the Deputy General Directorate of Institutional Promotion offered **218 million pesos** through **2** IFNB's.

VI. Transportation

The Deputy General Directorate of Institutional Promotion has tried to provide financing to renew the taxi fleets of many states, by promoting the purchase of safest, most efficient, and environmentally friendly new vehicles. During 2020, the *Taxi Estrena* (Brand New Taxi) program, which operated **78 million pesos**, was implemented.



VII. Molds, Dies and Tools Program, and Credisuministros Program

By having contact with the main representatives of the business sector throughout the country, the Deputy General Directorate of Institutional Promotion has served as a major intermediary between business owners needs and the product design areas. This

collaboration has led to the Molds, Dies and Tools, and the Credisuministros programs, which were created from a direct proposal from the Advisory Councils. In 2020, these programs operated **284** and **15** million pesos, respectively.

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, during 2020 the Deputy General Directorate of Institutional Promotion based its promotional efforts in actions differentiated per state and region, with basis on the following segmentation of the country:

IX. Advisory Councils

Nacional Financiera has a National Network of Advisory Councils that consists of 32 work groups, one per each state. Each council has approximately 20 members, and is formed by:

- The economic development state secretaries
- Business owners from strategic sectors and regional occupations
- Presidents of business chambers and organizations
- Deans from higher education institutions
- Directors of research centers

Regional Directorates



2018-2024 National Strategic Sectors

Transportation:

Automotive parts and aerospace

Electrical-electronic:

Electronics, audio and video equipment, electrical and lighting hardware, communications equipment

Capital goods: Engines and turbines, capital good

Textiles Clothing and Footwear.

Molding of pieces:

Plastic pieces, metallic products

Health:

Medical devices, medical equipment, pharmaceuticals, human biotechnology

Technology:

Digital industries, clean energies, robotics, biotechnology, nanotechnology

Energy:

Electricity production, oil and gas

Tourism:

Fitting of medical centers (SMEs), tourism services (SMEs), hotel, business, and health and retirement infrastructure



Their mission is being a gathering place to generate synergies among the public and private sectors to promote both Mexican MSMEs and big businesses, through the offer of financing, technical assistance and training. This mission is always in line with the occupations and specific financing needs of each state, and with the strategy of Nacional Financiera to promote economic development.

Each work group has quarterly ordinary meetings carried out in their state. Additionally, once a year there is a national meeting of advisors in Mexico City.

The National Network of Advisors is operated through



the Deputy General Directorate of Institutional Promotion of Nacional Financiera. It consists of 32 state representatives and five regional directorates (Center, Northeast, Northwest, West and South) and a team for support and connection with business areas at the headquarters.

The state representatives are in direct communication with the advisory councils. The state representatives also organize the ordinary meetings acting as technical secretaries, and maintain a permanent contact with the board members in order to follow-up and perform any accords reached. During 2020, the National Network of Advisors consisted of 574 members, and held 124 state work groups meetings across the country. In 56 of those, the DGA of Institutional Promotion was present. Only the first round of ordinary meetings, from January to March, took place in person. The rest of the meetings for the year have been performed remotely. In total, at these meetings **379** agreements were reached.

Moreover, during 2020 the National Network of Advisors became the main business model to identify the impacts caused by the COVID-19 pandemic at the regional and sectorial sector, and for proposing actions aimed to maintain the national economy, by promoting strategic financing institutional programs focused in the industrial, tourism and supply chains for export sectors.

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.

- Financing for **185 million pesos** was authorized for a mining sector development program in Mexico.



I. Securities Market Boost

Nafin continues boosting the Stock Markets, by financing in the amount of 300 million pesos for an instrument intended for the development of the realstate sector in Mexico, that indirectly also promotes growth of the industrial and services sector.

II. Financial Advisory Services

Two requests for the preparation of technical valuation opinions were addressed in 2020: For the largest forestry company in Mexico, a leader in the transformation industry that trades in the Mexican Stock Exchange (BMV, in Spanish), and for a Mexican airline.

III. Government Banking

As of December 2020, Nafin continued to manage a line of credit granted to Petróleos Mexicanos (Pemex), with a balance of 3,143 million pesos.



INVESTMENT PROGRAMS

I. Direct Stock Investment

As for the permanent portfolio of companies, during 2020 Nafin attended the annual stockholders meetings of the companies in which they have stocks, and many regulatory requirements were addressed.

On the other hand, five capital calls were addressed during the year for an amount of 3.05 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 2020, the **CMIC** holds commitments for **1,011.6 million US dollars** in **91** investment funds and **32** direct joint investments that support **292** Mexican businesses and more than **81,200** direct jobs and **500,706** indirect jobs. Moreover, CMIC

manages more than **13,243 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, in Spanish**), holding **1.11%** of the ordinary stock of this multilateral organization. The Chairman of the Board of Directors of Nafin (Secretary of Finance and Public Credit) participates as member of the Development Bank of Latin America Board of Directors, with the aim of promoting financial and technical cooperation schemes for the development of the small and medium size enterprises of our country.

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)**



III. Institutional Market of Corporate Alternative Debt Program-MIDAS

To effectively carry out its mandate, Nacional Financiera has designed the institutional program called *Mercado Institucional de Deuda Alternativa Societaria-MIDAS* [Institutional Market of Corporate Alternative Debt Program - 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 BMV 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.

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, investments requirements and goals of the energy sector. The foregoing fo-

cuses on the development of national suppliers, the creation of jobs and social benefits.

At the close of 2020, the balance of this portfolio increased vs 2019 (**25,632.0 million pesos**). This increase was mainly due to the availability of resources for new projects.

In 2020, the following project stands out:

Photovoltaic solar plant in Aguascalientes. A simplified credit was authorized to finance the construction and operation of a project with a 95 MW capacity.

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

04

INTERNATIONAL



INTERNATIONAL FINANCIAL INSTITUTIONS

Nacional Financiera, through the Directorate of International Financial Organizations (DOFI, in Spanish), negotiates financing for the Bank's priority projects, with the best terms and conditions, to optimize the cost of institutional raising and contribute to the balance management with medium and long terms funding. The Financial Agent designs strategies to promote and negotiate loans and grants issued by International Financial Institutions (IFI) for financing the priority programs of the Federal Government. The Financial Agent also acts as the promoter and liaison between Nafin and the international development community and maintains an active process of connection for the exchange of best practices.

The foregoing ensures that any commitments acquired by our country and Nafin are honored, guaranteeing the mobilization of international resources to finance and support new ventures in innovative sectors, vulnerable to climate change, low carbon intensity, and on a gender equality basis to reach the goals set in the 2030 Agenda for Sustainable Development.

Green Climate Fund

Since late 2015, Nacional Financiera has worked to obtain the certification as Green Climate Fund (GCF) direct access entity. From January to December 2020, the DOFI, with the support of the Global Green Growth Institute (GGGI) achieved a considerable progress in this process. Meetings took place in different areas of the Bank to gather the information requested by the GCF Secretariat after their first review of the application. The information

was translated into English and uploaded in May to the Online Accreditation System whereby the GCF carried out a second review. Gaps were identified during the process that Nafin must address to be

certified. Work on these gaps was carried out during the second quarter.

In November 2020, the Secretariat of the GCF informed Nafin about their second review of the submitted information, and with this the Institution moved to phase II of the certification process. In this phase, work with a panel of experts from the GCF to address any lingering issues from the review, and to inform about the advances concerning the detected gaps was started. It is expected to complete this phase during the third quarter of 2021, to seek the certification of Nafin during the GFC Council meeting to be held on the summer of 2021.



FINANCIAL AGENT

At the close of 2020, the portfolio of Financial Agent in execution consisted of **11** loans and **5** donations, in the amount of **1,025.4 million US dollars** (loans) and **34.4 million US dollars** (donations). **3** of the **11** loans correspond to the Inter-American Development Bank (**IDB**), **5** to the International Bank for Reconstruction and Development (IBRD, the original World Bank institution), and **3** to the International Fund for Agricultural Development (**IFAD**); while out of the **5** donations, **4** are from the **IBRD** and **1** from the **IFAD**.

Likewise, during the period work continued in **2** new IBRD operations, one formalized in November and other negotiated at the close of 2020.

The main sectors financed by IFIs during the foregoing period were: energy, social, education, environment and climate change. The disbursement at the close of 2020 totaled **54.2 million US dollars**, by reason of the low budget allocation and the impact from the international sanitary contingency. There was income recorded for **9.1 million US dollars** in commissions collected as Financial Agent.

IFI-financed projects

Nacional Financiera fortified its IFI funding strategy to meet its goal of obtaining long-term resources in foreign currency under the best terms and conditions that include competitive rates, in order to promote and support sustainable and priority development projects of Mexico. To accompany said funds and accomplish other of Nafin goals, non-reimbursable financial grants, mainly aimed at implementing the programs and projects and to reinforce the capacity of the Institution to adequately address the public policy goals of the Federal Government, specifically regarding climate change mitigation, have been used.

As of December 2020 there is a portfolio of **17** lines of borrowing for **1,377.91 million US dollars** with assorted IFIs: The German Development Bank (**KfW**), the Inter-American Development Bank (**IDB**), the European Investment Bank (**EIB**), the World Bank (**WB**) and the Latin American Development Bank (**CAF**). There are 3 grants from the IDB for **54.44 million US dollars**.

The following are IFI's financing projects in operation or being negotiated during 2020:

- **Loans and technical cooperation from the IDB and the Clean Technology Fund (CTF) to finance the Geothermics Financing and Risk Transfer Program**

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



Therefore, the program has three financial components: i) a loan for **54.3 million US dollars** from the IDB to build, modernize and expand operation plants and transmission lines; ii) non-reimbursable financing with contingent recovery for **51.5 million US dollars** from the CTF for exploratory drilling; and iii) a donation of **2.8 million US dollars** from the CTF for non-reimbursable technical cooperation.



- **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 2020. Under this loan contract, Nafin is obliged to develop and implement an Environmental and Social Management System (ESMS) 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.

- **ESMS Financial Cooperation**

The ESMS 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 the Bank and its activities may have regarding potential environmental and social impacts within the credit process.

With the ESMS, the Institution will strengthen its assessment, mitigation, management, documentation, monitoring impacts and risk associated with financing and investment capacities 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 ESMS suitable to Nafin's portfolio; the firm's work has produced a draft 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.

During the 2019 fiscal year, work with ERM consulting was resumed and the ESMS Coordinating Office was created within Nafin's Deputy General Directorate of Credit.

Currently, the system is limited to manage environmental and social risks during the credit process for retail bank financial operations

- **Uncommitted line with CAF for 300 million US dollars**

This is a revolving borrowing line for working capital of the Institution, for the use of the International Treasury. This line was executed in 2013 and it remains valid until the parties decide otherwise. During 2020, a total of **550 million US dollars** was borrowed.

- **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 to support water desalinization projects**

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

On December 20, 2017, Nafin got a loan from KfW 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, therefore, 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 5 years of reprieve.

Since the financial closing of the project is not expected to take place in 2020, the reason that the loans have not been disbursed, there were talks with KfW regarding the current status of the project and the possibility of making use of the resources. Such resources are marked solely and exclusively for private projects in the water and sanitation sectors. After an analysis with the business areas of Nafin, it was determined that the Institution does not have a pipeline of projects that meet the criteria required by KfW.

Therefore, jointly with KfW and to prevent the additional cost of commissions for undrawn balance to the Institution, it was decided to cancel both loan contracts through a termination agreement on

November 13, 2020, for PROAMU II and on December 11, 2020, for PROAMU III.

- **KfW's financing line for 34.02 million US dollars for the Forestry Investment Program (Proinfor, in Spanish)**

At the request of the Secretariat of Finance and Public Credit (SHCP, in Spanish), Nacional Financiera supported the Trust Funds for Rural Development (FIRA, in Spanish) to take out a concessional loan with KfW for **34.02 million US dollars**, since that organization has no sovereign guarantee. The resources were transferred to the FIRA under favorable conditions, plus operational and risk costs incurred by Nafin due to their mediation. This loan 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.

The Consultancy Support for Implementation (CAI, in Spanish) agreement by and between GFA-Eurofunding and KfW was executed on May 12, 2020, on behalf and to the order of FIRA. The implementation of the program formally started on June 15, 2020. From December 1-3 KfW, Nafin and FIRA launched a virtual follow-up mission aiming to review the progress to date of the technical and financial implementation of the program. FIRA shall record in Nafin any credits granted to its financial intermediaries, to subsequently request the disbursement of the resources against the loan.

- **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, on December 18, 2018, Nafin and KfW executed a loan contract for 113.4 million US dollars structured in two tranches:



**45.36
MD**

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.

**68.04
MD**

Tranche II: an allocation of **68.04 million US dollars** intended for construction and operation of solar plants.

The first disbursement of **Tranche I** took place on the second quarter of 2019, for 33.19 million US dollars, and supported **4,836** SMEs with credits issued through the Electric Power Savings Trust (FIDE, in Spanish). The disbursement of the remaining amount (**12.17 million US dollars**) is expected on the second quarter of 2021.

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 Zacatecas.

- **Borrowing line with BEI for up to 150 million US dollars**

On April 30, 2020, the Board of Directors of Nafin authorized taking out a loan for up to **150 million US dollars** with BEI, to finance programs for the economic reactivation of the country, by granting credit to MSMEs coordinated through the network of financial intermediaries registered in Nafin, in response to the impact caused by the COVID-19 epidemiological contingency.

On December 10, 2020, the SHCP authorized Nafin, through the official letter no. 305-i.079/2020, taking out a loan with BEI.

The loan contract for an amount up to 150 million US dollars to finance programs to reactivate the country's economy, through credits for MSMEs coordinated through the network of financial intermediaries registered with Nafin, in response to the impact caused by the COVID-19 epidemiological contingency, was executed on December 14, 2020, under the Financial Obligations Registry Number 38-2020-L.

The resources from the loan were fully disbursed into Nafin's accounts on December 28, 2020. The verification of use of the resources is currently under process before the BEI.

Financing in negotiation

- **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 set aside for a climate change mitigation program for the Mexican transportation sector.

The following activities were carried out during 2020:

- On April 30, 2020, the Board of Directors of Nafin approved the actions for taking out such loan.
- On October 2020, KfW informed Nafin that the Latin America Investment Facility (LAIF) started a restructuring process, therefore any resources allocation would be reviewed until late 2021. The DOFI successfully negotiated with KfW that the non-reimbursable resources to support the program are contributed by the German Ministry of Cooperation and Economic Development.
- Hiring of a transportation expert consultant to support in the definition of the operational mechanism, the confirmation of the participants, the projections of vehicular replacement, the design of terms of reference for hiring consultants to support the implementation of the program, and the connection and communication with the participating entities.

- Hiring of a consultancy to carry out the assessment, classification and verification of potential centers to destroy vehicles that reach the end of their life cycle and can be used for the implementation of the program.
- Hiring of a consultancy to develop a calculator of emissions and total cost of property to quantify the environmental and economic benefits produced from the implementation of the program.

The execution of the loan contract is expected on the second quarter of 2021.

- **Financing line of 100 million US dollars with the IDB to support the financing of COVID-19 contingency and economic reactivation programs**

On March 25, 2020, the FIRA requested that Nafin mediated on their behalf a loan with the IDB for an amount of up to **100 million US dollars** to support the package of measures in favor of accredited individuals and financial intermediaries that are enrolled in development banking and are bearing the consequences of the **COVID-19** epidemiological contingency. Nafin shall transfer to FIRA the resources from the IDB through a credit line, which

shall have the same terms and conditions that the loan from the IDB.

The Board of Directors of Nafin authorized taking out said loan at their meeting of April 30, 2020; likewise, the SHCP authorized the negotiation of the loan on May 12, 2020. Subsequently, the negotiations on the loan contract draft by and between NAFIN-IDB-SHCP-FIRA took place during June. On August 4, 2020, the request of authorization to take out the loan, together with the final draft of the contract were forwarded to the SHCP, which authorized taking out the loan on August 31. However, under instructions from the SHCP, the negotiations between the Mexican Government and the IDB have stopped, and the formalization of the loan contract has not taken place.

- **Nama Facility Fund/GIZ financial cooperation**

The German International Cooperation Agency (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 SME sector has identified the Individualized 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 securities fund of Nafin and the financing of energy audits to identify potential projects.

During 2020, there have been meetings between Nafin and GIZ to clarify certain technical aspects of the program (energy diagnosis, implementation mechanisms, and participating players). There have also been meetings with the Mexican International Cooperation for Development Agency (AMEXCID, in Spanish) and the SHCP, where it was agreed to nominate the SHCP, as the head of the development banking sector, as the political counterpart of the program. The reply from the AMEXCID is currently being expected.

- **Loan taken with the IDB to finance the Financing Program for Investment in Clean Power Generation Projects**

The Board of Directors of Nafin authorized taking out a loan with the IDB for up to **100 million US dollars** on April 30, 2020. The aim of the loan is to help bring down market barriers associated with the financing of the sector, which translate in scarcity of credits or inadequate conditions of the resources available, in terms of price and installments, by offering more attractive market conditions. Authorization by the SHCP to start negotiating the contract with the IDB is waited.

Given the national and institutional priorities to service the sectors most impacted by the COVID-19 epidemiological contingency more effectively, there has been negotiations with the IDB to leverage these resources to finance institutional actions that contribute to reactivate the economy and preserve jobs,



by giving the country's MSMEs access to credit, and increasing the initial amount of the loan from 100 to 200 million US dollars under the same financial conditions.

The Board of Directors of Nafin authorized this proposal on September 2020, and subsequently the authorization from the SHCP was requested. However, under instructions from the SHCP, the negotiations between the Mexican Government and the IDB have stopped, and the formalization of the loan contract has not taken place.

- **IDB loan for the Global Credit Program for the Defense of the Industrial Fabric and Employment (formerly the Program of Financing and Geothermal Risks Transfer)**

On April 2020, Nafin informed the SHCP of its intent to reformulate the loan of the Geothermal program in order to modify the destination of the resources to finance contingency and economic reactivation institutional programs for businesses, by granting credit to SMEs through the network of financial intermediaries. In this respect the IDB agreed with such reformulation, in the understanding that Nafin shall undertake to take a new loan from the IDB to reestablish the initial amount and guarantee the continuity of the Financing and Transfer of Geothermal Risks Program (PFTRG, in Spanish), in accordance with the work schedule established for the implementation thereof, a process that may take up to three years.

The IDB and Nafin negotiated the Modifying Contract No. 2 in question. However, under instructions from the SHCP, the negotiations between the Mexican Government and the IDB have stopped, and the formalization of the loan contract has not taken place.

INTERNATIONAL COOPERATION

I. International Agenda

- **The Montreal Group**

The Montreal Group is a non-profit association created in September 2012 that aims to exchange experiences between financial institutions dedicated to the development of SMEs. Currently the group consists of ten banks: Banco Nacional de Desenvolvimento Econômico e Social (BNDES) of Brazil; Banque Publique d'Investissement (BPI) of France; Business Development Bank of Canada (BDC); Caisse Centrale de Garantie (CCG) of Morocco; China Development Bank (CDB) of China; Finnvera of Finland; Nacional Financiera of Mexico; Development Bank of Nigeria (DBN) of Nigeria; Saudi Industrial Development Fund (SIDF) of Saudi Arabia, and SOWALFIN of Belgium. The annual membership fee is 20,000 Canadian dollars.

The 9th Annual Meeting of the Montreal Group scheduled from June 8-10, 2020, in Riyadh, Saudi Arabia and hosted by the SIDF, was postponed until

autumn 2021 without a confirmed date due to the sanitary emergency. Nevertheless, during the first quarter of 2020, the banks from this organization finished their best practices exchange work on the following subjects: 1) Advance Analytics for Risk Management with a strong emphasis on Fintech models, and 2) Management Training for Scaleups, a group in which Nafin shared the experiences of its programs to fortify SMEs.

Due to the worldwide pandemic, at the Board of Directors meeting held in the framework of the virtual annual meeting of May 26, the decision was made that the member banks would focus their works in two analysis groups: 1) Best practices to support SMEs against the pandemic, and 2) Economists' group for the exchange of information about national economic policies in view of the worldwide economic deceleration. Due to the contingency, virtual meetings of each group were scheduled once a month.

In addition, in view of the sanitary and economic emergencies, our institution actively participated in various virtual forums organized by this organization in support of its members: 1) Sharing of the best practices-interventions supporting MSMEs in the context of COVID-19 on March 18, 2) SMEs and the World Economic Outlook on October 27, and 3) Supporting female entrepreneurs in the context of COVID-19, on November 19. These forums were open for the employees of the commercial divisions of the member banks. In some cases, executives from our institution participated with presentations to share our experiences in the range of subjects.

- **Latin American Association of Development Financing Institutions (ALIDE, in Spanish)**

In 2020, due to the sanitary emergency, the activities originally scheduled for the year, specifically the 50th Annual Meeting of the General Assembly of ALIDE, scheduled to take place on Willemstad, Curaçao, from May 13-15, 2020, were suspended.

Nevertheless, Nafin participated in many virtual activities and webinars focused in sharing the best institutional practices to face the adverse economic effects associated with the current global pandemic. In this respect, our Institution had an outstanding role in the virtual 2020 Annual General Assembly Building Sustainable and Resilient Responses to the

COVID-19 Crisis that took place on October 7, 9, 13 and 15. On the next to last day of the event, in his turn to participate, our general director Carlos Noriega Romero shared with all other members the details of our institution's strategy to face the pandemic.

During the last fortnight of October, many officers of our institution participated in the 18-hour "Financing of Energy Efficiency and Ecological Transition" course organized by ALIDE under the sponsorship of the IDB.

On the other hand, at the behest of ALIDE, our institution was invited to carry out virtual training session on November 24 for officers of the CAF's Vice-presidency of the Private Sector located in Bolivia, Colombia, Panama, Paraguay and Peru. This training session took place within the context of the course named Development Banking in Latin America: A Global Vision, in which the model of Nafin, specifically our financial products and services, was shared. Likewise, thanks to our actions, we managed to include speakers from Bancomext in this training session, who shared their foreign trade promotion model.

Finally, it is worth mentioning the invitation from ALIDE to publish an article about our institution in their virtual magazine *Banca & Desarrollo* [Banking & Development] in the autumn

- **International Development Finance Club (IDFC)**

The IDFC is a development banking association formed by 24 members from Europe, Africa, Asia and the Americas. Its purpose is to share knowledge, experiences and know-how in subjects that are strategic and of common interest for its members. The subjects addressed by this club include climate financing, biodiversity, social development, poverty reduction and financial innovation. Nafin has benefitted from the exchange of information and experiences that this forum has provided.

The following are among its most prominent members: Agence Française de Développement (AFD), Banco Nacional de Desenvolvimento Economico e Social (BNDES) of Brazil, Central American Bank for Economic Integration (CABEI), China Development Bank (CDB), African Development Bank (AfDB), Japan International Cooperation Agency (JICA), Korea Finance Corporation (KoFC), German Development Bank

(KfW), Small Industrial Development Bank of India (SIBDI), Vnesheconombank (VEB) of Russia and Nafin. Currently, the AFD leads the group.

Of the many meetings held by the IDFC throughout the year, the annual meeting held in the context of the annual reunion of the World Bank/International Monetary Fund is the most important. In preparation for this event, Nafin participated with other banks in work groups dedicated to previously accorded subjects, which would be presented in the annual meeting. The IDFC's annual meeting scheduled to take place in Washington D.C., USA, on October 2020 was cancelled due to the global sanitary emergency. Nevertheless, Nafin continued its active participation by remote means in the tasks developed by the IDFC throughout the year, including the Green Finance Report prepared by the Club.

05

**TREASURY
AND
MARKETS**



TREASURY

I. Collection

During 2020, to guarantee that the Institution always has the necessary resources and authority to disperse such resources to the different business areas under the best cost and installment conditions, the Treasury continued its priority activities related to the efficiency of raising strategies, determination of transfer prices, management of portfolios and interest rates risk and liquidity for hedging the Institution's balance. The foregoing intends to support the institutional goals regarding the expansion of access to financing, the development of financial markets and projects in high impact sectors, and contribute to the financial profitability that ensures the long-term sustainability of the Bank.

In regards to attracting foreign currency, the **Certificate of Deposit Program** of the **London Branch** remained as the main attraction vehicle, which, along with the acquisition of the interbank financing lines, repurchase agreements, 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. Balance Management

The strategy of minimizing the exposure of the Institution's balance to movements throughout the curve interest rates was maintained by making the necessary hedging transactions to protect the income received by the Bank for financial margins, thus achieving the goals of the Treasury of guaranteeing that the balance risks are kept within the approved limits and of strengthening the Bank's income. An optimization of the capital consumption within the Institution is also achieved.

In view of the economy shutting down due to the impact of the SARS-CoV-2 (COVID-19), Nafin decided to grant grace periods to the financial intermediaries that requested them, for both fixed and variable rates, without charging any commission or modifying the rate.

For fixed rate credits, the Directorate of the Treasury opted to break with the hedges for the credit of origin, since the calendar discrepancy made any swaps ineffective. Taking advantage of the current market conditions, new operations were closed at the same transfer rate of the operation of origin and a fee was obtained. From June to August 2020, 27 swaps were restructured in the amount of 3,940 million pesos with five financial intermediaries, obtaining a profit as compensation for the Institution in the amount of 26.9 million pesos.

During the year, the income generated from managing the balance totaled 1,022 million pesos, which contributed to strengthen the Institution's capital.

III. Investments

At the close of 2020, there is a held-to-maturity portfolio in national currency, which is mainly structured with securities of the Federal Government; a liquidity portfolio, mainly consisting of monetary policy deposits, governmental and quasi-governmental securities used as warranty in the payment systems of Banxico, and a corporate securities portfolio that contributes to the private debt market development. Jointly, these instruments brought a net income of 239 million pesos to the Bank.

Profit generation through financial margin in US dollars originates from investment portfolios held to maturity and available for sale: strategic assets that have been maintained as one of the hedge instruments of the institutional balance, by hosting long-term raising lines. Both portfolios are maintained, practically in their entirety, in investments of debt issued by the Mexican Federal Government (UMS) and national state-owned companies like Pemex and Electricity Federal Commission (CFE, in Spanish). At the end of 2020, there were earnings of 135.1 million pesos.

In regards to management of liquidity in foreign currency, the main strategy still consists in optimizing the profitability of surpluses in US dollars through the execution of synthetic investments in pesos and the management of liquid resources through our checkbooks, particularly through demand and term deposits with development and commercial banks. The latter mechanism allowed the generation of significant interest margins, so during 2020 the liquidity portfolio generated revenues of approximately of 37.4 million pesos.

IV. London Branch

Despite the complicated international environment during this period, at the end of 2020 the balance of the Certificates of Deposit issued by the London Branch stood at 1,962 million US dollars.



MARKETS



I. Markets Promotion

From January to December 2020, after implementing the SARS-CoV-2 (COVID-19) Pandemic Plan, from April the market promotion activities were directed to establish a new work plan strategy to maintain and increase the profitability of the portfolios of the Money, Treasury, and Exchange trading desks. Continuity of operations and the important client portfolio of the Institution made possible to increase the amount of repurchase operation and to ensure attracting resources at competitive levels.

Likewise, the internal requirements were addressed in due time and proper form. No issues or observations were reported from the various committees where the Directorate of Markets Promotion participates.

From January to December 2020, the following was achieved:

Increase the generation of trading operations among the Promotion clients with the support of the Money Desk, Treasury and Brokers.

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

In general terms, sufficient resources at competitive levels have been gained, which contribute to achieve the goals of the **Financial Deputy General Directorate**.

II. International Financial Markets

After the steep drops that took place in March together with the first generalized confinement measures around the world, the stock markets had an upward trend and reached, in some cases, maximum historic levels. In the United States, the Dow Jones climbed to 7.3%; the S&P 500, 16.3%, and the Nasdaq, 43.6%. In Germany, the Dax index climbed 3.5%, the Japanese Nikkei 225, 18.3%, while the FTSE 100 of the English stock market fell to -14.3% and the Spanish IBEX fell to -15.5%.

Among the indexes in emerging markets, the South Korean Kospi was the best performer by climbing 30.8%, followed by Shanghai's Shenzhen Composite with 27.7%, the South Africa stock index with 4.1% and the Brazilian Bovespa with 2.9%. Other indexes had setbacks, like the Budapest stock exchange that fell to -8.8%, Poland with -7.7%, and Hong Kong with -3.4%.

The extreme monetary easing measures implemented by the top central banks of the world, which consisted in lowering the reference rates and massive injections of money, was reflected in the rate levels throughout the yield curves of their respective countries, also in the rates of emerging countries in view of the search for better yields. It is worth mentioning that the central banks from emerging countries did not implement extreme liquidity supply measure, but all without exception lowered their reference rates (see the World Economy section).

Thus, in the United States the 10-year government bond rate closed at 0.92%, in Canada to 0.68%, in Germany in -0.57%, in France -0.34%, in Italy 0.54%, that is, drops of -100 bp, -107 bp, -38 bp, -46 bp y -87 bp, respectively. Emerging markets had similar movements, Mexico dropped -157 bp, Indonesia -117 bp, Poland -88 bp, Peru -70 bp, Russia -45 bp and South Africa -28 bp.

Volatility also impacted the currency markets. There was a high depreciation against the US dollar during the first quarter of the year, followed by an appreciation in view of the excess of dollar throughout the world. At the close of the year the Brazilian real had the biggest depreciation against the US dollar with -22.5%, followed by the Russian ruble with -16.7%, the Mexican peso with -5% and the South African rand with -12.9%. The following currencies appreciated: The Euro by 8.9%, the Chinese yuan by 7.1%, the South Korean won by 6.4%, the Chilean peso by 5.6% and the Japanese yen by 5.2%.

Lastly, regarding raw materials, the prices of the West Texas Intermediate (WTI) oil, after reaching negative prices in the futures market during April, closed the year at 48.52 US dollars per barrel (dpb), a contraction of -20.5%. Brent oil closed at 51.80 dpb, a decline of -21.5%. Regarding metal prices, the following variations were observed: silver 47.9%, gold 20.5%, and platinum 10.9%.



III. National Financial Markets

The international financial instability observed late in the first quarter of the year impacted the performance of the local financial markets. However, there was a gradual recovery for the rest of the year in view of the optimism observed in the global markets. Nevertheless, the realization of risks like new outbreaks, additional episodes of financial volatility, apathy from private investment, additional reductions of the ratings of both the sovereign credit and Pemex, complications to meet fiscal goals, continuation or deepening of the trade conflict between the United States and China, the electoral process in the United States and global political conflicts, among other reasons, contributed to maintain an environment of high uncertainty.

IV. Money Market and Bonds

Bond rates increased during the first three months of the year and later displayed an upward trend. The 10-year M-31 reference bond dropped to -134 bp and closed at 5.54%, while, on average, the yield curve was adjusted to -173 bp. According to our estimates, there was a net exit of foreign investment flows of 7,304 million US dollars from the market.



Short-term rates practically absorbed all the monetary policy adjustment, that is, -300 bp. 28 and 91-days Cetes bonds dropped to -301 and -308 bp, respectively. 6-month Cetes bonds dropped to -295 bp and 1-year Cetes bonds dropped to -289 bp.

Lastly, after experiencing abrupt rises during June, unseen since the 2008 crisis, the surcharges of reviewable instruments reversed part of this trend for the rest of the year and closed with the following variations: The curves of the securities of the Bank Savings Protection Institute (IPAB, in Spanish) with monthly, quarterly and biannual coupons increased by 3.6, 8.1 and 10.7 bp, respectively. The curve of surcharges of Bondes D bonds had an average increase of 3.9 bp.



V. Exchange Rate Market

By closing at 19.9087 pesos to the US dollar, according to the exchange rate at the date of determination, the Mexican peso depreciated by 5.25% with respect to the close of 2019.

The national currency experienced high volatility during the first six months of the year. An accelerated upwards trend occurred during February and March and reached a maximum level of 25.1185. This was followed by a stability period around 24 pesos to the dollar between March and May, and a downward trend that accelerated during the last months of the year.

On the other hand, on March 9, Bank of Mexico announced an increase in the size of the Exchange Hedges Program under the scheme of Non-Delivery Forwards (NDFs), to 30,000 million US dollars, considering that as of that date auctions had reached 5,500 million US dollars; moreover, on March 30 credit auctions in US dollars, through the swaps line with the Federal Reserve, were announced.

It is worth mentioning that between June and October, the Exchange desk operated with only one trader out of the three assigned thereto, including the head of the area.

VI. Capital Markets

The Price and Quotation Index (IPC, in Spanish) of the BMV had marginal gains of 1.2% during 2020. With a gain of 17.6% the last quarter was the most favorable. Although the general decline of global stock markets early in the year had a negative effect on their performance, the subsequent recovery of international indexes did not have a proportional positive impact in our stock market. This can be ascribed to structural internal factors of business confidence and the business climate, which may be limiting the upswing of our stock market. IPC's closing level was 43,541.02 points. The Capitals Desk remained without a head of the area since June, which meant that only one trader carried out all the operations.



VII. Derivatives Market

The Derivatives Desk continued its strengthening process, which entailed replacing the head of the area. Therefore, activities were reinvigorated. Many opportunities have been taken, which has produced good results and an increased participation in the TIIE (IRS) standardized swaps market liquidate through ASIGNA, and operations with futures on specific bonds were resumed. It is worth mentioning that these two instruments were not traded in Nafin since 2018.

The Derivatives trading desk serviced the Treasury Strategies area with efficiency, thus satisfying the need of executing assets and passives hedges in national currency and US dollars.

INVESTMENT FUNDS

Nafinsa Fund Operator continues working on the objective of fostering access of small and medium investors to the stock market, through the distribution of stocks from the 13 investment funds it manages, having executed 26 agreements with 22 commercial brands in the stock market. At the close of December 2020, the average assets managed in investment funds amounted to 23,591 million pesos. It should be noted that during

this period the Operator has interacted with the Nafin's DGA of Institutional Promotion, through its regional directorates, 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 state secretariats of finance, public universities and/or APIs [Integral Port Administrations]. Additionally, there is participation in the project called Open Architecture, which is a 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 Operator.

CETESDIRECTO

There was continuity to the publicity strategy started in the last semester of 2019 to invest in cetesdirecto, through Internet, social networks and with the support of a sales force. Likewise, arising from the sanitary emergency that impacted Mexico from the second quarter of 2020, the promotion efforts to use apps and the www.cetesdirecto.com platform to contract and operate cetesdirecto with easy and safe access to the public were further emphasized. During the first quarter of 2020, there was an active presence in the Interactive Economy Museum and the KidZania children's entertainment center and in many exhibitions across the country. However, in accordance with the government's guidelines, during the second quarter of the year those activities were suspended until the competent authorities authorized resuming activities at the beginning of the fourth quarter. In late 2020 activities were suspended again.

To reinforce the government's financial inclusion strategy, during the first quarter of 2020 the broadcast campaign through local means of broadcasting, such as local radio stations and urban buses, was continued. This campaign was paused for the second quarter of 2020.

The sum of these actions helped to maintain during 2020 the upward trend carried over since 2018 and reach 870,000 registered customers. 571,368 of such registered customers have activated their contract with an investment balance exceeding 24,300 million pesos, exceeding the goals established for the year in outstanding fashion. Similarly, the total amount of debt offered during the year by the Federal Government through cetesdirecto reached 4.69% of

the total offer in national currency by Bank of Mexico, which, compared to the previous year's participation of 3.09%, represented an increase of 51.78%.

It is worth mentioning that spite of the sanitary emergency and the drop in yield rates of government securities during the year, the cetesdirecto financial services increased the number of contracts by 40.3% and the investment balance by 27.0%.

During 2020 the number of contracts and the investment balance of the clients broke the stagnation observed since 2011. The foregoing was driven by the growing concerns of the population in view of the unprecedented current situation, which in turn has motivated the search for savings and investment options through safe electronic platforms with low operation costs. Cetesdirecto stands out by offering the highest security for the investment yield and zero costs of operation, with no minimum balance and immediate availability. These benefits have been reflected in a growing demand for the service





06

**LEGAL AND
FIDUCIARY
OPERATIONS**

CORPORATE AND BUSINESS

Its objective has been to provide certainty to the legal processes involved in issuing credit, financial and risk capital markets, and international and advisory matters. In addition, assistance was given to various departments of the Institution for the preparation and review of contracts for national and foreign operations.

During 2020, the Corporate and Business tasks reported the following results for the Institution:

- Legal advice was provided to *Operadora de Fondos Nafinsa, S.A. de C.V.*, Investment Fund Operator, and to the investment funds that it manages, for the organization of ordinary and extraordinary stockholder meetings, and three meetings of the Board of Directors.
- Legal advice and preparation of the legal opinion for the participation of the Institution as an investor of debt instruments issuance.
- Preparation of Deposit and Pledge Agreements to formalize the incorporation of collateral in the issuance of credit and discount lines by Nafin through the competent channels.
- Review, update and formalization of master agreements for financial operation with derivatives and ISDAS (International Swaps Dealers Association Master Agreement).
- Review and formalization of Cash Pledge Agreements with respect to financial operations with derivatives entered into with local financial institutions.
- Legal and implementation advice for the cetesdirecto distribution channel.
- Review, updating and formalization of master agreements for the purchase and sale of securities and repurchase operations, contracts for banking deposits of managed securities, contracts for safekeeping of securities and securities lending.
- Implementation, review and analysis of the simple line of credit agreement guaranteed with active eligible security trust assets, pursuant to the Memo 25/2020 regarding the rules applicable to any financing by Bank of Mexico guaranteed with qualified credit assets from development banking that are to be dispersed to MSMEs.
- Legal advice for the formalization of the required documents for: (i) the participation of Nafin in the issuance of a simple syndicated loan for 95 MWac solar power plant construction project in Aguascalientes; (ii) participation in a syndicated loan for the construction, commissioning and operation of a natural gas compression platform in the Bay of Campeche; (iii) execution of the documents required for the participation of Nafin in the financing of VAT from the natural operations of a mining company based on Sonora; (iv) deferral of payment of five credits in view of the COVID-19 sanitary contingency; (v) modification of four Project Finance credit agreements to extend the term of disposal; (vi) the operations in which Nafin participates as financial agent of the Federal Government, and any financing from international financing organizations in which Nafin is the borrower. The latter scenario includes the 150 million US dollars loan from the European Investment Bank for financing microbusinesses impacted by the economic crisis caused by the COVID-19 pandemic, through Nafin's financial intermediaries' network.

GOVERNMENTAL REGULATIONS

I. Legal Procurement

For the 2020 fiscal year, the Institution addressed **413** items in compliance with the regulations applicable thereto, as a National Credit Corporation, with respect to the following: purchases of goods and services that its areas require to achieve its goals and/or support their substantive activities, the many committees and work groups where the Institution participates; protection of Nafin's trademarks. Support and advice were provided for the following: preparation and review of requested documents; issuance of legal opinions; support to submit the required applications to the Mexican Industrial Property Institute (IMPI, in Spanish).

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

Regarding the activities where the Directorate of Governmental Regulations performs as liaison to the ASF, the opening, final results and preliminary observations and all information requirements of the four audits and one assessment performed to the Institution that correspond to the 2019 Public Account were addressed in due time and proper form. (1) 27-GB *Fondo de Estabilización de los Ingresos Presupuestarios* [Budget Income Stabilization Fund]; (2) 57-GB *Fideicomiso de Contragarantía para el Financiamiento Empresarial* [Business Financing Counter-guarantee Trust]; (3) 58-GB *Mandatos Fusión y Liquidación* [Merger and Liquidation Mandates] (Fonep, Fidein and PAI) and (4) 352-DE *Ingresos y Gastos de Fideicomisos No Paraestatales relacionados con la Construcción del Nuevo Aeropuerto Internacional de la Ciudad de México* [Income and Expenses from Non-state owned Trusts associated with the Construction of the New Mexico City International Airport] and (1) 1370-DE *Evaluación de la Política Pública de Apoyo a Micro, Pequeñas y Medianas Empresas* [Assessment of Public Policies in Support to SMEs].



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

In matters of transparency and access to public information, the Transparency Unit (TU) carried out and coordinated the following activities:

From January to December 2020, the TU worked in coordination with Nafin's management areas to update, publish and/or delete any information entrusted to them, and to prepare and approve the public versions of various documents of mandatory publication in the Transparency Obligations Portals System (Sipot, in Spanish). This activity resulted in the update of the information, in due time and proper form, including the information regarding the functions of the TU and the Directorate of Governmental Regulations, in accordance with the General Law on Transparency and Access to Public Information (LGTAIP, in Spanish), the Federal Law on Transparency and Access to Public Information (LFTAIP, in Spanish) and the general and federal technical guidelines in the matter.

Arising from the pandemic decreed on March of 2020, the National Institute of Transparency, Information Access and Personal Data Protection (INAI, in Spanish) extended the deadline to comply with the obligation to upload and update the information from the first quarter of 2020 until July 31, 2020; nevertheless the information was updated on May, 2020.

Moreover, we report that in October 2020, as part of the "Annual Program of Institutional Verification and Accompaniment for compliance with access to information and transparency obligations by the federal parties subject to such requirements for the 2020 fiscal year", the INAI notified the opinions of compliance corresponding to the following trusts:

- Trust for Risk Participation 11480
- Entrepreneur Capital Trust
- Business Financing Counter-guarantee Trust
- Nafin's Pensions and Seniority Bonus Fund
- Nacional Financiera Fund of Pensions with Defined Contributions
- Complement of the Special Borrowing for Savings (PEA) and short and medium terms loans for retirees under the defined benefits plan

All the foregoing scored one-hundred percent (100%) in the Global Index of Compliance of Transparency Portals.



IV. Reserved Records Index (IER)

From January to December 2020, in accordance with the applicable regulations, the TU requested the administrative areas to update the Index of Files Classified as Reserved (IER, in Spanish) of the second semester of 2019. As of the first semester of 2020, Nafin had 16 dossiers registered in the IER.

V. Transparency National Platform (Infomex)

From January to December 2020, 246 requests for information were received in Nacional Financiera, S.N.C., I.B.D (Nafin)'s Infomex System and 123 requests regarding the trusts managed by Nafin.



PLATAFORMA NACIONAL DE
TRANSPARENCIA

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 2020 are the following:

Regarding bank formalization services:

- Owing to the “Special Accounting Criteria applicable to credit institutions in view of the COVID-19 contingency” issued by the National Banking and Securities Commission (CNBV, in

Spanish), our participation in the design and preparation of models for agreements and instruments to document the authorizations and support granted by Nafin to financial intermediaries and/or their borrowers in the second-tier credits (PROCRESE), Automatic Guarantee, Selective Guarantee and Productive Chains programs stands out.

- We also intervened in the negotiation and implementation of 20 collaboration agreements with state governments and businesses to formalize their incorporation into the Nafin Guarantees Program as counter-guarantors, and document the resource contributions to back-up the guarantees granted to the financial intermediaries in the Program.
- Participation in and structuring of the electronic formalization of “signatory letters” executed by financial intermediaries and first order businesses in Nafin’s Productive Chains Program, to replace letters with physical signatures.
- The legal instruments for the operation of the new factoring mode of the Productive Chains Program with Pemex were prepared. This mode, called *Factoraje o Descuento Electrónico Plus* [Factoring or Electronic Discount Plus], permits to make electronic operations with shared financial costs between Pemex and its suppliers.

VI. Regarding litigious services:

12.97 million pesos in credits were recovered from filed and resolved legal actions.

Likewise, it is worth mentioning that during this fiscal year, 86 requirements from the authorities were addressed in due time and proper form with 100% levels of compliance. No penalties were levied against the Institution for failure to address such requirements.

Regarding internal management legal services: 61 petitions to grant and revoke powers of attorney, protocolization of appointments and

authentication of documents were addressed, together with 99 requests associated with the formalization of loans for consumption with mortgage guarantee, and with extensions, guarantee replacements or redocumentation and cancellation of encumbrances.

During the period, various legal opinions regarding various regulations were issued in the subjects of:

- Austerity.
- Agreements of suspension and lifting of suspension of terms due to the COVID-19 pandemic, with respect to the Mexican Federal Judiciary Council and various judicial bodies.
- Remarks to the Provisions Project that Banxico will issue for the electronic issuance of securities titles that can be deposited in Securities Depository Institutions.
- Memo 15/2020 that contains the rules applicable to the use of financing issued by Bank of Mexico to meet ordinary additional liquidity requirements.
- Trusts.
- Creation and modification of the organizational structure of the Federal Public Administration agencies and bodies.
- Specific provisions for the application of wages and salaries scales.
- Compensation manuals.

FIDUCIARY OPERATIONS

As of 2019, Nacional Financiera became the country's top trust in terms of the value of the managed trust assets, and remained on top until the third quarter of 2020, since in October, CI Banco acquired the trust division of Deutsche Bank and became the top trust in Mexico with trust assets worth 1,600 million pesos.

However, Nafin remains both the top trust of the Federal Government, concentrating over 71% of the assets managed by the development banking institutions, and the main executing arm of public policies that employ this instrument.

Nacional Financiera manages assets worth 1.5 trillion pesos from 403 fiduciary businesses.

Of the total managed assets, 532,463 million pesos, equivalent to 34%, are liquid resources. Of this amount, 181,801 million pesos (34%) are invested in the Money Desk and 4,030 million pesos (1%) in the Nafinsa Fund Operator. Of the remaining resources, 11,583 million pesos (2%) are deposited in the Treasury of the Federation and 335,049 million pesos (63%) are invested with other financial intermediaries.

In spite of the sanitary emergency caused by the SARS-CoV-2 (COVID-19) virus, income from trust services amounted to 181.3 million pesos during the fiscal year, exceeding the annual outstanding goal by over 6%.





SUPPORT OPERATIONS



QUALITY MANAGEMENT AND ORGANIZATIONAL CULTURE

With the aim of keeping its dynamic of growth and qualitative change, Nafin maintains its strategy of continuous improvement of its Quality Management System (SGC, in Spanish), developing its human capital, strengthening of risk management and incorporation of systems suitable for the efficient operation of its programs into its technological platform.

I. Quality Management System (SGC)

Nacional Financiera implemented this system from 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. For 18 years, Nafin has maintained and strengthened its SGC, and every year its processes have been certified. The successful migration from the ISO 9001:2015 Standard was achieved on November 2017. The new documentation standard facilitated and clarified the transition by naturally incorporating the corrections and new components of the Standard. The ISO 9001:2015 certification was obtained and is valid from November 6, 2019, to November 5, 2022. There are annual reviews to maintain the certificate and validate the renewal thereof. In 2020 we applied for recertification, with favorable results. 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 in managing the SGC is the participation of the staff of the Institution in the quality self-management of their processes through the Quality Operational Committees (COCs, in Spanish), which meet at least once a quarter. By the close of December 2020, there was a total of 38 COCs.

III. Certificate of delivery-reception from public servants subject to such requirement

On July, with the active participation of all area directorates, the list of public servants subject to delivery-reception certificate requirement was updated. This process allows us to have a dynamically updated current list of the public servants subject to the requirement of preparing a delivery-reception certificate after their assignment or commission ends. The foregoing was carried out in accordance with the "AGREEMENT that establishes the general guidelines for the regulation of delivery-reception and accountability processes of the Federal Public Administration" published in the Mexican Federal Official Gazette on July 24, 2017. Likewise, the actions required by the Secretariat of Public Service (SFP, in Spanish) to identify the public servants that shall prepare the delivery-reception certificate were carried out in the Public Servants Sole Registry (RUSP, in Spanish).

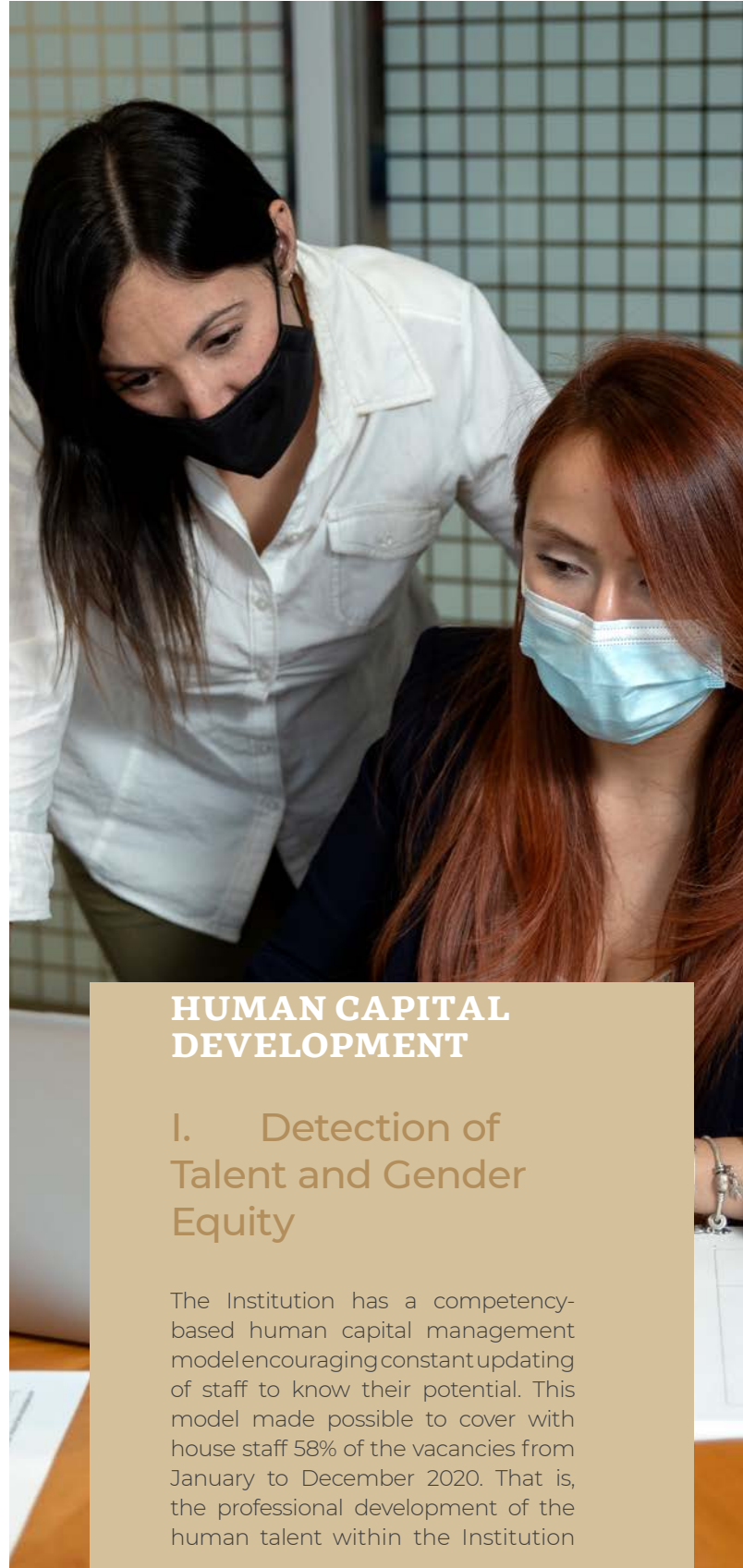
During 2020, all provisions and requests by the SFP on the matter have been addressed in due time and proper form.

IV. Organizational structure

In 2019, the Board of Directors approved the modification of the organizational structure of the Institution. At the close of this year, the organization consists of 996 positions: 472 for middle and top management, or equivalent thereto, and 524 to operations personnel. The budget ceiling goal of 967,728,860.00 pesos authorized for personal services in the 2019 Federal Expenses Budget was met.

In early 2020 the authorized structure of 996 positions was maintained: 472 for middle and top management, or equivalent thereto, and 524 to operations personnel. The budget ceiling for personal services in the 2020 Federal Expenses Budget was 994,729,785.00 pesos.

As of December 31, 2020, this structure remained unchanged: 996 positions, 472 for middle and top management, or equivalent thereto, and 524 to operations personnel. On budgetary terms, the Personal Services item closed the fiscal year with a modified budget of 956,082,505.59 pesos.



HUMAN CAPITAL DEVELOPMENT

I. Detection of Talent and Gender Equity

The Institution has a competency-based human capital management model encouraging constant updating of staff to know their potential. This model made possible to cover with house staff 58% of the vacancies from January to December 2020. That is, the professional development of the human talent within the Institution

has led to reduced costs of recruiting and the optimization of our investment. Also, open positions were covered in accordance with public policies designed to promote gender equity. Women accounted for 44.2% of the total promotions during the year, and 53.6% of all hires.

In addition, Nacional Financiera has a program to promote the development of talented young people, through professional practical experience and social service. From January to December 2020, 57 individuals have received support through the projects offered by the Institution.

With the firm intention of strengthening talent detection, the information in the Talent Bank (an online service) was updated in January. This tool enables the identification of internal and external personnel with the required qualifications to perform a certain position, and candidates to cover any vacancies created. Moreover, the Talent Bank offers a methodology that aligns the qualifications of the personnel with the needs of the Institution, establishes individual development plans, maps individuals as key personnel and prepares replacement grids for every Directorate of the Institution.

During 2020 we jointly and actively worked with the Gender Equality Unit of the SHCP to prepare the “2020-2024 Equality and Non-Discrimination Program of the Secretariat of Finance and Public Credit”, and we spread various equality and non-discrimination campaigns. In this regard, the following activities stand out:

- The activity named *Construyendo nuestro Programa de Igualdad* [Building our Equality Program] helped to identify priority actions to define two objectives: Institutionalizing gender perspective in the institutional culture, and make sure that this perspective is mainstreamed into fiscal work.
- Nafin’s Gender Equality liaisons participated in a virtual meeting to review and analyze the strategies and actions relating to the condition and place of women in the fiscal sector, and inclusion and financial education thereof.

- A virtual meeting between the SHCP’s Gender Liaisons Network and the National Institute for Women (Inmujeres, in Spanish) took place to define the follow-up strategy to the National Women-Men Equality Policy (Proigualdad 2020-2024).
- The aim of the online sensitivity program named *Claves para la Igualdad y la No Discriminación* [Keys for Equality and Non-Discrimination] convened by the SHCP’s Gender Equality Unit and attended by Nafin’s Gender Equality liaisons, is to provide to the decentralized administrative bodies and agencies of the coordinated sector the basic elements to identify factors that have a bearing in strengthening institutional culture. This will make easier for them to become positive change agents that have an effect of inclusive and equal working environments free of discrimination and violence.
- Likewise, during the second semester of 2020, Nafin implemented a specific training program concerning work equality, non-discrimination, human rights and gender perspective for all its personnel.

On the other hand, to ratify our commitment to promote and develop strategies, programs and actions aimed at closing the equality gap between



women and men through the institutionalization of gender perspective, two years after Nacional Financiera was certified with the NMX-R-025-SCFI-2015 Mexican Standard for Work Equality and Non-Discrimination, From November 30 to December 1 of 2020 the oversight auditory stipulated by the Standard took place. The audit aims to demonstrate that we have maintained the conditions that made possible to obtain the certification and keep the Silver level with 100% level of compliance on the audited critical points.

Likewise, we have worked in the definition and implementation of the Annual Work Plan for the Ethics and Prevention of Conflicts of Interest Committee of Nacional Financiera, S.N.C., in accordance with the provisions of the SFP, and we have met our commitments with respect to the 2019-2024 National Program of Combat to Corruption, Impunity, and Improve Public Management.

II. Priority Training Programs

121 courses (in-person, online and external) were procured and given during 2020. It is worth mentioning that, once the COVID-19 world outbreak was declared a pandemic, it became necessary to implement prevention and care measures in view of this sanitary contingency. Among these actions, on March 17, the Directorate of Human Resources and Quality communicated through an institutional memo the temporary suspension on internal training courses. To address this situation, the Online Training Program was implemented

through various digital platforms. In this manner, the technical and specialized needs of the personnel were addresses, specifically in soft skills, updating of regulatory subjects and preparation for obtaining certifications.

As for the scholarship program, in 2020, 10 out of the 19 active scholarships at the start of the year were finished. On September 28, the 2020 Call to apply for Scholarships was published in the Internal Communications channel. 10 new scholarships were

added to the Scholarship Program for Employees, and 19 scholarships were active at the close of the fiscal year. All scholarships were followed-up in due time and proper form.



INTERNAL COMPTROLLER

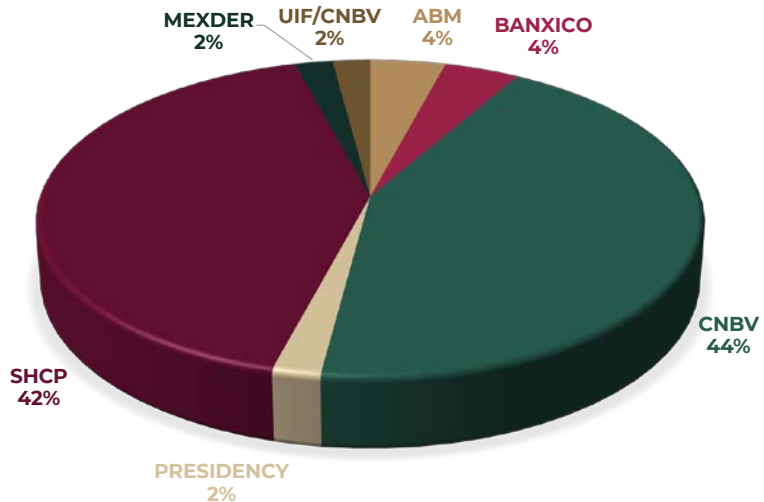
Internal Control

Reinforcement Measures Implemented in face of COVID-19

With the implementation of the National Social Distancing campaign to fight the spread of SARS-CoV-2 (COVID-19) coronavirus in Mexico and on account of the declaration of a health emergency due to force majeure by the Health Council, Nafin adopted various containment measures against this virus including, but not limited to, hygiene measures, suspension of non-essential activities, as well as the adoption of virtual work meetings, in order to ensure the safety of personnel and entities that personnel is in contact with.

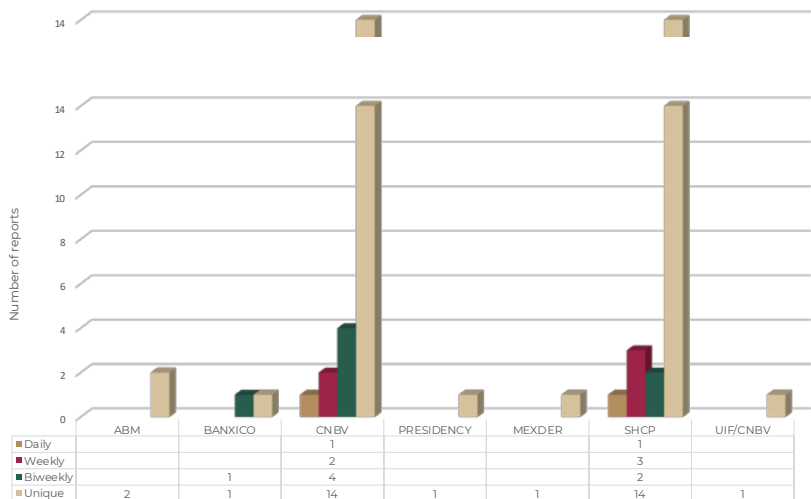
Through the communication identified as AIA-DCI-146/2020, deputy general directors and directors of departments in the Institution were instructed to forward any request for information related to the contingency, whether formal or informal, that was received from Banxico and the CNBV to the Internal Comptroller Office in charge of coordinating responses; to that end, directors obtained the approval of the competent deputy general directors. The Comptroller's Office addressed 48 authority requests related to the control of reception and submission of information, in regard to the contingency called COVID-19, as follows:

Reinforcement Measures against COVID-19



At the end of the fiscal year, 34 reports to be addressed only once were monitored, as well as 14 requests which are periodically monitored, comprising, respectively, 71% and 29% of 48 requests which were received; the assigned personnel of the following departments actively participated in such undertaking: Risk Management, Credit Management, Credit, Product Development, Corporate Financing, Budgetary and Financial Planning, and Treasury, among others, in charge of answering requests in the times and deadlines set forth by authorities, after validation by their deputy general directors, as follows:

COVID-19 CONTINGENCY REPORTS



Internal Control System

The holders 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.



Report on the Status of the Internal Control System

By the end of fiscal year 2020, the Annual Report on the Status of the Internal Control System in Nafin was prepared. Said report will be submitted for consideration of the Audit Committee and Board of Directors during their first meetings of fiscal year 2021 and will be presented to head of SFP with autograph signature.

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

On October 30, 2020, the Nafin Audit Committee became aware of the update of Objectives and Guidelines of the 2020 Institutional Internal Control Model (LIMICI, in Spanish) and recommended to the administration to submit it for approval of the Board of Directors. On the meeting held on December 1, this collegiate body resolved to implement it.

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.

Compliance with the 2020 Work Program

In accordance with the Work Plan of the Internal Comptroller, as of this date there have been 17 verifications of Effectiveness Evaluation of the Internal Control for several control tools that were implemented, in order to cross-check documentary and electronic evidence developed when performing each process. The results will be informed to the Audit Committee during its first meeting in 2021.

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 following purpose:

- Verify the fulfillment of the activities that make up the critical processes and the effectiveness of the registered controls.
- Establish or update control mechanism according to the needs of the processes.
- Jointly implementing internal controls and inspection points, to avoid the materialization of possible risks.

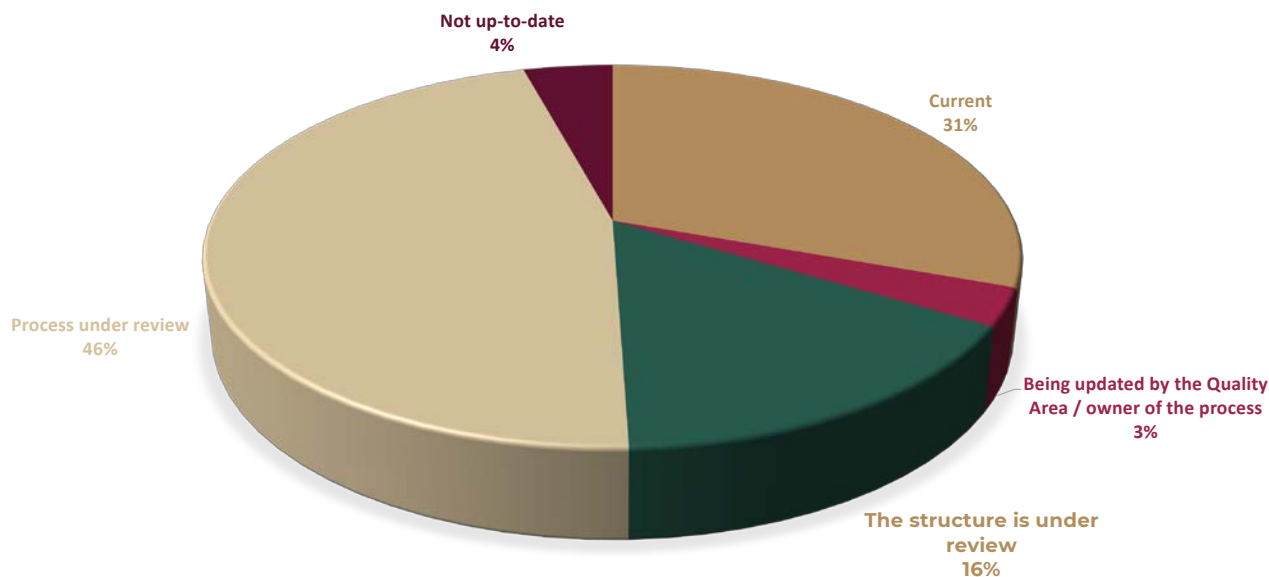
Activation of Incidents in Routine Control Agendas

During financial year 2020, 183 Internal Control incidents were detected due to the activation of alerts; in general terms, these were minor and of an operational nature without causing a significant impact, being registered in the Internal Management and Control System (SACI, in Spanish).

Updated Record of Relevant Institutional Manuals

In response to Article 156 section I of the Single Banking Circular (CUB, in Spanish), there is a registry of status of substantive manuals for the Institution's operation, which is quarterly reported to the Audit Committee. At the end of the current fiscal year, there are 95 operating manuals, 22 of which are up-to-date and 73 are being updated; such information will be disclosed on the agenda of the first ordinary meeting of the Audit Committee to be held during fiscal year 2021, as follows:

Updated Record of Relevant Institutional Manuals



Regulatory Reports and Reports to the Authorities

One of the activities of the Internal Comptroller's Office is to monitor timely compliance with regulations, in regard to the information, development and delivery to the authorities of several reports requested to the Institution.

The Internal Comptroller's Office permanently updates the inventory of reports and relevant information requirements of Administrative Units, thus promoting timely institutional compliance with 298 regulatory reports of several organizations and agencies such as SHCP, CNBV, Banxico, etc.

Timely Attention of Routine Control

Agendas

Pursuant to provisions of number 8, Subsection C, Section V, of LIMICI, the Internal Comptroller's Office informs on the timely 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 2020 was prepared and will be submitted to the Auditing Committee and the Board of Directors during its first meetings of 2021.

The Internal Comptroller's Office, responsible for monitoring compliance with the Provisions in question, will provide the Compliance Report and certification of the Board's agreement to the CNBV.

Results of Internal Control Audits

On December 28, the Internal Audit Directorate issued the official letter DAI/250/2020, through which it monitors the actions that Internal Comptroller's Office has developed in order to implement corrective and preventive recommendations proposed in the comments corresponding to audit

14/2019 "Risk Management," reporting that the degree of progress in the implementation of the proposed measures amounts to 100%.

The Internal Comptroller's Office implemented the actions agreed in the preventive recommendation, consisting of identifying control sections where it is necessary to increase supervision, and requesting the Human Resources and Quality Directorate to evaluate the structure, taking into account responsibilities and workloads.

Prevention of Operations with Proceeds of Unlawful Activities and Financing of Terrorism

In the first ordinary meeting of 2020 of the Internal Audit Committee, the Work Plan of Internal Comptroller's Office was submitted for information purposes, which contains activities to be performed by the Administrative Compliance Office on Anti-Money Laundering and Countering the Financing of Terrorism.

Regulatory compliance

On January 15, 2020, the CNBV informed through the SITI PLD/FT website that the obligation to submit annually the integration of the Control and Communications Committee (CCC, in Spanish) has been repealed; however, the integration was sent in a free format in order to keep it updated.

On February 17, 2020, the quality party of the Operational Questionnaire corresponding to fiscal year 2019 was timely sent to the CNBV.

In the 6th ordinary meeting, CCC approved redesigning the Risk-based Approach Methodology, as provided for in 21st-1 of the General Provisions applicable to credit institutions (DCG, in Spanish).

To comply with the 62nd Quater of the DCG, Banxico provides the Cross-Border Transfer Database (BDTT, in Spanish) for the exchange of information between credit institutions and competent authorities.

In agreement with the provisions of Banxico's guidelines, the Institution submitted the first report and the result did not have any comments with a level of total compliance.

The document called “Best Practices Applicable to Reports of Unusual and Concerning Internal Operations Submitted by Credit Institutions” was adopted, which will streamline the quality of reports received by the Financial Intelligence Unit.

Verification of files for high-risk clients

In compliance with the Program for the Verification of Identification and Knowledge Files for Clients with a High-Risk rating to update Clients’ risk level, where applicable, the reviewed files were found to be complete. The results were presented to the CCC, complying with the related internal policy.



Process Evaluation

Together with the Processes area of the IT Directorate, the processes carried out in the area were reviewed, in order to document the current situation and update the activities and functions being conducted.

Preventive processes of illicit operations

Due diligence processes were carried out to determine the level of risk of clients from different area directions; furthermore, probity formats for new staff were received from the Human Resources and Quality area, in order to attest to the good repute of people proposed for hiring.

Likewise, Black Lists sent to the Compliance Officer by Authority for monitoring were uploaded to the Relevant and Unusual Operations System (SORI, in Spanish).

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

During the period, 10,179 operations in foreign currency were authorized and 184 operations were validated in the BDTT. It is important to point out that the report of transfers made is sent daily to Banxico.

Meetings of the Control and Communications Committee (CCC)

During 2020, the CCC held 12 ordinary meetings and one extraordinary meeting.

Nafin Branch in Grand Cayman, Cayman Islands

Emphasis was placed on commitments assumed during the Audit carried out by the Cayman Islands Monetary Authority

Observance of Foreign Banks Due Compliance Requirements

In order to maintain business lines with foreign counterparties, 31 requests for information from national and foreign banks were answered. The requests mentioned refer to Wolfsberg Questionnaire formats, Patriot Act Certifications and general information requests to Nafin.

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

Nafin complied with the Training Program on Anti-Money Laundering and Countering the Financing of Terrorism online, which has three levels according to the functions and responsibilities performed by Institution's employees and officials, as well as members of the Board of Directors.

Compliance with FACTA CRS regulations

During the last quarter, an expert firm was engaged in order to comply with the provisions of Annex 25 and 25 Bis of the current Miscellaneous Tax Resolution, in regard to formats, processes and

reports to the Tax Administration System (SAT, in Spanish), implemented in the Institution, and training was given to the institutional personnel involved. The reports were delivered to the authority in due and timely manner.

Sending Official Reports to the Authorities

The official reports for regulatory and supervisory authorities, with the corresponding information, were as follows:

- 4 reports of Relevant Operations
- 4 reports of Cash Operations with Dollars
- 4 reports of Operations with Cashier's Checks
- 12 reports of International Fund Transfers to the CNBV
- 261 reports of International Fund Transfers to Banxico

INTERNAL AUDITING

At the beginning of 2020, the Internal Audit Department (DAI, in Spanish) incorporated its Annual Work Program, which, prior to its execution, was submitted to the General Director for his consideration, to the Audit Committee for approval and to the CNBV for information purposes.

The Program is aimed at conducting audits of substantive activities of the Institution, especially those related to credit, financial markets, trusts, risk management and information technology, among others, the objective of which, in general terms, is to verify compliance with the regulations established by the CNBV and Bank of Mexico; to verify the management of risks inherent to processes, strengthen the Internal Control System and verify control mechanisms implemented in the computer security model.

In accordance with the foregoing, the Internal Audit activities during the year included the following.



Audits

17 audits (89.47%) were carried out, two less than those scheduled.

It was decided to cancel two audits, situation that was reported to the Audit Committee for approval. Due to the COVID-19 health contingency, its cancellation was authorized because the facilities of areas responsible for the processes remained closed, which did not allow the reviews to be carried out.

The conducted audits are shown below:

No. of audits	Topic	Regulatory Institution
2	Exchange Rate Market and Derivatives Market.	CNBV
1	Global Code of Conduct in conducting foreign exchange transactions.	Bank of Mexico
4	Credit Process: Rate policy, productive chains, instrumentation and disbursement, and monitoring and recovery.	CNBV
3	Systems. Application development, electronic Nafin and financial agent system.	CNBV
1	Fiduciary process. Pension and Retirement Trust of PMI Comercio Internacional S.A. de C.V. – 80722.	CNBV
1	Risk management.	CNBV
1	Portfolio Rating.	CNBV
4	Follow-up.	CNBV

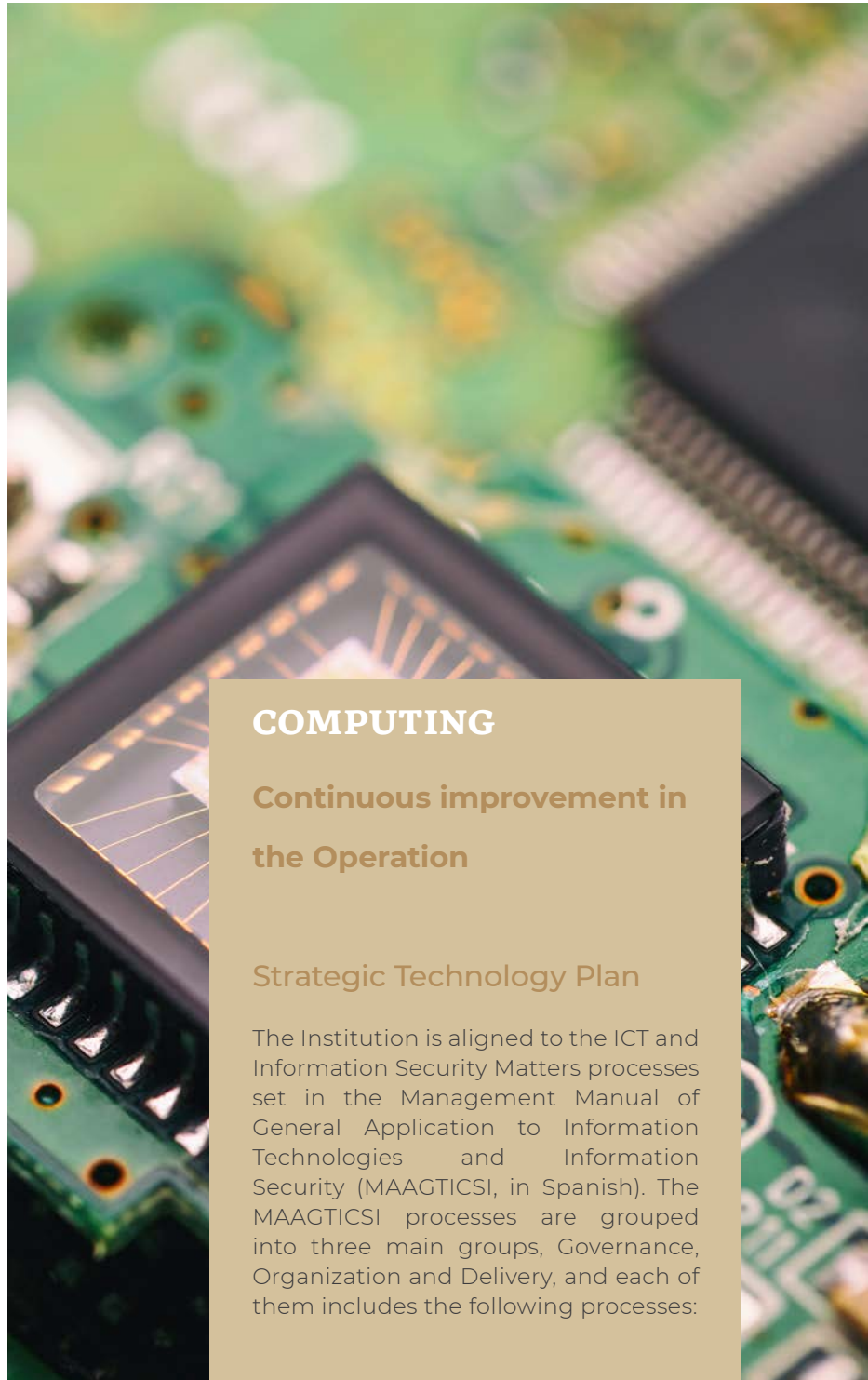
Audited departments were involved during the audit so as to inform the audit's results and added-value proposals that will allow addressing the findings and recommendations aimed to strengthen the Internal Control System.

Participation as Normative Advisers during the Meetings of the Decision-making Bodies (committees)

In compliance with the regulatory provisions, we participated in meetings held by the Comprehensive Risk Management Committee and the Control and Communications Committee, and at the Executive Credit Committee of the Board of Directors.

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 analyzing the origin of the variations.



COMPUTING

Continuous improvement in the Operation

Strategic Technology Plan

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). The MAAGTICSI processes are grouped into three main groups, Governance, Organization and Delivery, and each of them 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 2020, 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

1. Strategic Planning (PE, in Spanish)

- **Indicator.** Percentage of compliance in the execution of the projects that make up the Executive Portfolio of ICT Projects: 98.91%. During 2020, 32 business projects have been implemented, 14 of which were implemented through the contracting and administration of external suppliers in accordance with current regulations; and 18 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 personnel in these projects.

2. Project Management (ADP, in Spanish)

- **Indicator.** Percentage of compliance in the execution of the projects that make up the Operative Portfolio of ICT Projects: 0%. The number of projects in the ICT Project Operational Portfolio is 0. There are no projects in the Operating Portfolio at the moment.



3. Budget and Procurement

Management (APCT, in Spanish)

- **Indicator.** Percentage of effectiveness in preparing feasibility studies: **90.91%**. The number of favorable feasibility studies is **40** and the number of feasibility studies presented to the Unit is **44**.

4. Service Management (ADS, in Spanish)

- **Indicator.** Keeping service information updated: **100%**. The number of reviews carried out is **4**, as well as number of evaluations for the period

5. Configuration Management (ACNF, in Spanish)

- **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 **4**.

6. Supplier Management (APRO, in Spanish)

- **Indicator.** Compliance with the process: **100%**. The number of scheduled and executed progress and completion reviews is **29**.

7. Operation Management (AOP, in Spanish)

- **Indicator.** Incidents in the operating environment: **99.31%**.

The number of resolved incidents in the operation is **1,722**, and the number of incidents that occurred in the operating environment is **1,734**.



8. Operational Process of Information Security Controls and ERISC (OPEC, in Spanish)

The **Strategic Group on Information Security (GESI, in Spanish)** met on a planned occasion.

1st planned meeting, July 17, 2020

The objective was to carry out the first meeting of 2020 of GESI to start up the Committee and to discuss the following items:

- The ASI F1 format was formalized in compliance with MAAGTICSI.
- In this meeting, it was agreed that meetings will be held every six months, setting forth that, if necessary due to a critical issue, it will be held in an extraordinary manner.

The Group of the ICT Security Incident Response Team (ERISC, in Spanish) met on two occasions in a planned manner:

1st planned meeting, July 17, 2020

The objective was to carry out the first meeting of 2020 of the ERISC to start up the Committee, agreeing that the meetings will be held quarterly, establishing that, in the event of a security incident, an extraordinary meeting will be convened.

2nd planned meeting, October 29, 2020

In order to comply with the provisions of the CNBV, the second quarterly meeting was held, in which the following items were discussed:

- Presentation of ERISC.
- Strengthening the awareness campaign regarding Information Security in Teleworking.
- Course on Preventive Measures for Information Security.
- General Topics, where participants made comments regarding an information security event or incident.

Note: There were no information security incidents throughout 2020.



08

FINANCIAL RESULTS



Despite the uncertainty and decrease in economic activity, the Institution obtained in 2020 a profit of **3,613 million pesos** before taxes; once the full utilization was made to the SHCP, and considering the corresponding tax cancellation, there was a net result of **(4,228) million pesos**, equivalent to a nominal return on capital of **(10.04)%**. By the end of the year the equity capital amounted to a total of **40,504 million pesos**, representing **6.8%** nominal growth in comparison with the total revenue of the previous year. It is worth mentioning that in this year the Federal Government allocated **8,385 million pesos** to the Institution, and the return on capital would have been **4.7%** without such allocation.

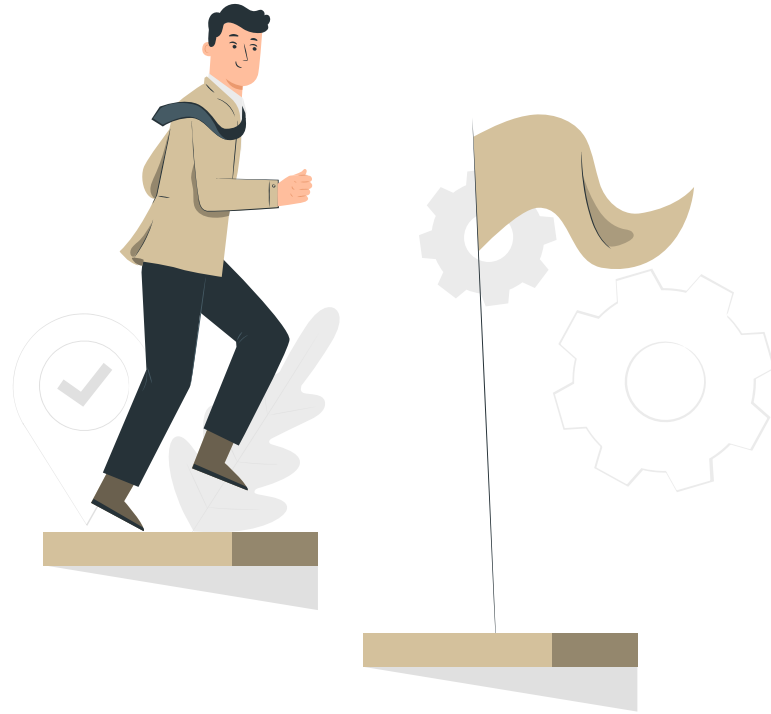
In addition, the Bank's financial situation shows solid indicators, including the following:

Indicator	Dec. 2019	Dec. 2020
Overdue portfolio / private sector portfolio	0.34%	0.25%
Reserves / overdue portfolio	554.10%	972.63%
Financing granted to MSMEs / Financing to the Private Sector	71.00%	61.7%
Financial penetration (Private Sector Portfolio / GDP) 1/	1.70%	1.80%
Financial penetration (Private Sector Portfolio and Capital Contr. / GDP) 1/	2.06%	2.16%

Mexico's GDP for December 2020 is calculated according to the Survey on Expectatives of Specialists in Economics of the Private Sector as of December 2020.

Given the balance obtained from the loan portfolio and guarantees with the private sector, it is estimated that as of December 2020 the Financial Penetration index of 1.80% was reached, higher than the 0.00% obtained in December 2019 (this index measures the balance of credit direct and promoted by Nafin to the private sector, as a percentage of Gross Domestic Product).

Likewise, when considering the previous balance plus contingent credits, the balance of the portfolio through FND and the capital contributions of the Fund of Funds, the Financial Penetration index went from 2.16% in December 2019 to 0.00% in December 2020 .

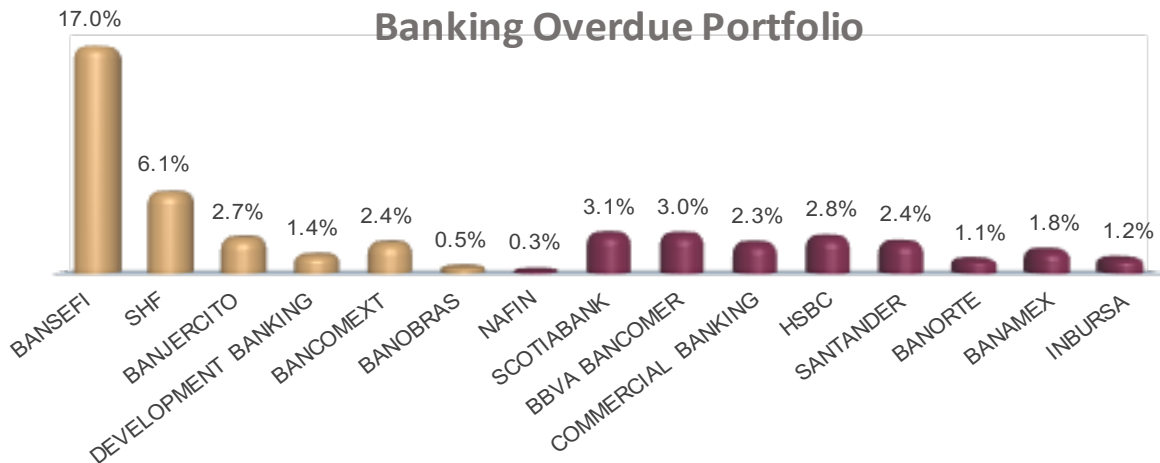


Evolution Risk Overdue Portfolio

At the end of December 2020, the credit portfolio registered in the balance sheet was **221,412 million pesos**. At the end of 2020, the risk overdue loan portfolio was at **539 million pesos**, primarily concentrated in Direct Credit for Companies Programs' portfolios by **528 million pesos (98%)**; and former employees, by 11 million pesos (2%), while financial intermediaries did not register an overdue portfolio.

Comparison with other banks

The Overdue Loan Index (ICV, in Spanish) of **0.26%** reached in December 2020 places Nafin below the Army, Air Force, and Navy National Bank (Banjercito, in Spanish); Bancomext; the Federal Mortgage Society (SHF, in Spanish), and the National Bank of Public Works and Services (Banobras, in Spanish). The National Savings and Financial Services Bank (Bansefi, in Spanish) has the highest ICV of development banking at **17.0%** as of November 2020, in agreement with last figures published by the CNBV.



Source: National Banking and Securities Commission

On the other hand, the Institution compares favorably against **2.33%** of commercial banks at the end of December 2020, as well as with the main commercial banks: Scotiabank, Santander, BBVA, Banamex, Inbursa, Banorte, and HSBC.

The portfolios of financial intermediaries in bank modalities of "A," "B+" and "B," as well as Public Sector and Decentralized Entities, which make up 77% 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 supervision, 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 2020, the Institution's assets had reached a total of **623,156 million pesos**, financed with **582,652 million pesos** liabilities, which, in turn, consist of **247,648 million pesos** from report creditors, **244,572 million pesos** corresponding to internal debt, and **90,432 million pesos** corresponding to external debt, and other liabilities.

In addition, Nafin has a Financial Agent balance of **389,477 million pesos**, an amount representing an increase of **21,391 million pesos** during the year, which amounts to **5.8%**; furthermore, the balance for stand-by guarantees reached **87,558 million pesos**, having a 2.5% growth rate in comparison with the previous year, due to the dynamism and acceptance of Nafin's Securities Program.

An analysis of Nacional Financiera's financial statements for the 2020 period is provided in this report's Annex B, "Report on Consolidated Financial Statements with Subsidiaries, as of December 31, 2020".



09

**INTERNAL
CONTROL
BODY**

The Internal Control Body (OIC, in Spanish) in Nacional Financiera, S.N.C. (Nafin) is an authority that carries out its functions in accordance with the guidelines of the SFP, a body on which its owner depends hierarchically and functionally, as well as the heads of the areas of Internal Audit and Audit for the Development and Improvement of Public Management, Complaints and Responsibilities.

I. Internal Audit and Audit for Development and Improvement of Public Management

For the period from January to December 2020, and given the health contingency caused by COVID-19, in accordance with applicable regulations, the OIC requested to SFP's Government Audit Unit to adapt the 2020 Annual Audit Program, which was authorized by said administrative unit by official letter UAG/210/0740/2020 dated August 31, 2020.

Pursuant to the authorized modification, the OIC scheduled the execution of six auditing acts, which were concluded in the same fiscal year, determining 28 observations in the fiscal year.

II. Individual delivery-receipt certificates of the Federal Public Administration (APF, in Spanish)

Periodic follow-up was given to updating the lists of public officials bound to carry out the delivery-reception process at the time of separation from their assignment, in order to validate the content and its formalization to SFP.

In 2020, the OIC participated in the coordination of the individual delivery-reception process of 37 administrative delivery-reception records.



III. Promotion and monitoring of austerity measures

In 2020, different administrative units of Nafin were made aware of regulations on austerity, requesting compulsory observance therewith.

Similarly, in 2020, this was also promoted at institutional committees such as the Committee of Acquisitions, Leases and Services, the committee in charge of reviewing tenders and the work group of acquisitions, among others; furthermore, relevant administrative units received official notices urging them to favor public tenders over other contracting procedures and to comply with applicable regulations.

IV. Actions to address the 2020 health contingency

The actions carried out by Nafin have been monitored, actions which have had no effect on the Institution's operation, since emerging programs and new regulatory provisions have been duly addressed, computer services are operating and there have been no information security incidents.

The situation of the pandemic is evaluated in pursuit of a return to normality, reinforcing health measures such as health screenings, remote work, sanitization, staggered schedules, virtual meetings and continuing with information campaigns both in health and information security matters, among others.



V. Diagnosis to prevent possible acts of corruption in processes of the Institution

During 2020, the integration of the inventory of essential processes and the improvement actions carried out by Nafin were monitored, by means of analysis and verification of the information reported and the relevance in which the processes operate in the Institution to meet its objectives.

VI. Follow-up to the National Program to Combat Corruption and Impunity, and to Improve Public Management 2019-2024 (PNCCIMGP, in Spanish)

During 2020, together with the Institution, work meetings were held to analyze the information required in the Program, as well as follow-up meetings of the activities developed by the Institution to meet the commitments and applicable indicators established in Collaboration Bases subscribed within the framework of PNCCIMGP and to provide relevant advice for incorporating the information. The preparation and delivery of the reports was verified with the progress of the results corresponding to the four quarters of 2020 and sent through the computer system of the SHCP.

VII. Monitoring of 2019-2020 Regulatory Improvement Programs

During 2020, activities to be addressed by the Institution were monitored by means of information requests to areas responsible for the Program, as provided for in Article Six of the “Guidelines for Improvement Programs Regulatory 2019-2020 of Legally Bound Parties of the Federal Public Administration.” At the end of the second semester of 2020, the Institution continues addressing certain items identified in the aforementioned article.

VIII. Monitoring of Control Board for Comprehensive Evaluation of the Committees of Ethics and Conflict of Interest Prevention, 2020

A monthly review of the “System for Monitoring, Evaluating and Coordinating activities of the Committees of Ethics and Conflicts of Interest Prevention” was carried out to monitor the actions developed in terms of training, attention to complaints, dissemination of aspects related to ethics, public integrity, prevention of conflicts of interest, updating applicable regulations, etc., verifying compliance with the deadlines set out in the Control Board and Annual Work Plan established by the Institutional Ethics Committee. Such review also included a request to the Institution for evidence that demonstrates the development of activities.



IX. Public procurement

In coordination with the Procurement and Services Directorate, the Institution continued carrying out actions to promote and verify the quality of the information registered by requesting areas, both in CompraNet and in the Comprehensive Procurement Management System, in order to contribute to an adequate planning and execution of procurement at the Institution:

- The consistency of the registration of contracts in the CompraNet system and the Comprehensive Procurement Management System, corresponding to 241 suppliers, was verified.
- 172 contracts were reviewed, in order to verify compliance with provisions set forth in current regulations.

X. Feasibility Studies

39 feasibility studies were reviewed and monitored in order to determine the advisability of acquiring, leasing goods or contracting services, as appropriate, based on the provisions related to the modernization of APF through Information and Communication Technologies.

XI. Annual Archival Development Plan (PADA, in Spanish)

The Institution continued with the corresponding support to carry out the actions contained in the PADA, applicable to this OIC, participating in the approval of the Index of Reserved Files, the Security Document for protecting Personal Data and the Documentary Disposition Catalog; as well as preparing reports for two *amparo* proceedings.

XII. Updating of Institutional Regulatory Framework

Together with the Directorate of Government Regulations, we continued with the strategy implemented to keep the institutional regulatory framework updated and ensure that it is aligned with the essential institutional processes as provided for in the PNCCIMGP.

During 2020, the quality criteria of 24 internal standards were reviewed, 12 of which regulate the substantive operation and the remaining 12, administrative aspect

XIII. Committee of Ethics and Conflict of Interest Prevention

There was involvement in eight meetings of this collegiate body in order to provide support, advice and to guarantee that commitments arising from the regulatory framework in such matters are duly and timely complied.

AREA OF CLAIMS, COMPLAINTS AND INQUIRIES

The following actions were carried out:

Complaints: From January to December 2020, 25 cases were concluded in total, leaving seven on hold for fiscal year 2019 and 19 for 2020.

Citizen requests: During 2020, 18 citizen requests were received in total, 15 of which were answered, leaving only three on hold.

Legal advice: During the period from January to December 2020, the staff of the Area of Claims, Complaints and Inquiries provided advisory services on 2,316 occasions, most of the time in connection with statements of financial condition.

Statement of modification of financial condition: During 2020, public officials of Nacional Financiera, S.N.C., complied 100% with their obligation to timely submit their Statement of modification of financial condition; commitment that was fully fulfilled as of November 25, 2020, that is, before the original legal deadline (December 31, 2020).

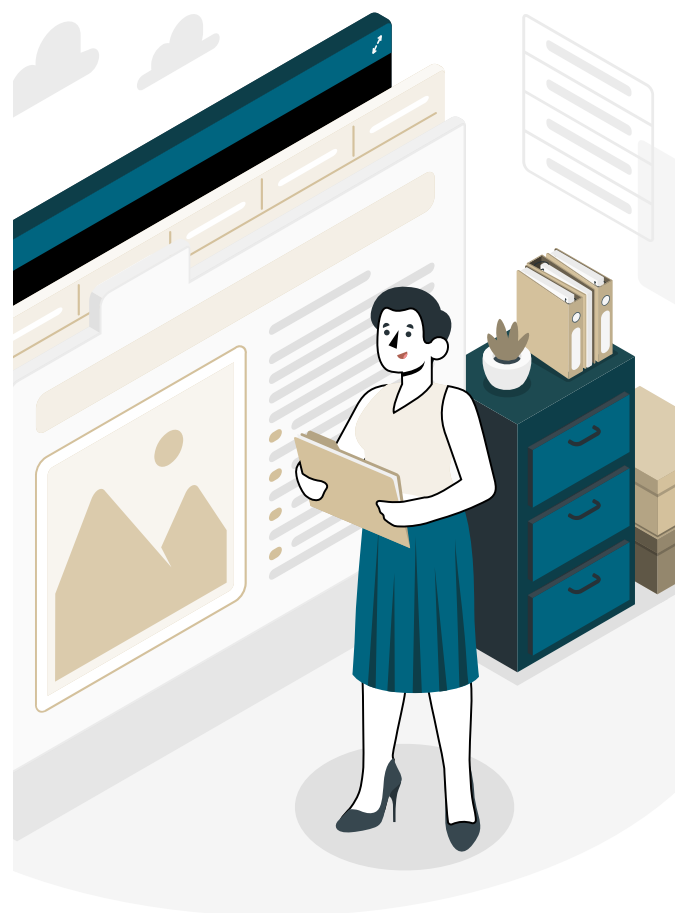
Investigation procedures against individuals or legal entities for violations of provisions on public procurement: Two files were received, which were concluded during 2020, both due to inadmissibility.

ADMINISTRATIVE RESPONSIBILITIES

In the period from January to June 2020, the following actions were carried out:

- **Administrative responsibility procedures:** In the reporting period, eight reports of alleged administrative responsibility were addressed; six of them were due to non-conformance with the statement financial position by the same amount of public officials.
- **Non-conformities regarding public procurement:** In the reporting period, 11 complaints filed against contracting procedures were addressed.
- **Transparency and access to information:** 102 requests of access to information were timely and appropriately addressed.

Status of comments: At the end of the fourth quarter of 2020, Nafin had 16 comments in process; 15 were determined by the Internal Audit Area of this OIC and one by the Federal Audit Office.





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	2015	2016	2017	2018	2019	2020
Total Assets	395,158	515,075	529,082	597,605	567,786	623,156
Finance Agent Portfolio	109	94	65	29	9	0
1 st -Tier Credit Portfolio	43,730	66,299	63,004	73,566	60,304	54,803
2 nd -Tier Credit Portfolio	127,863	147,920	165,390	186,037	165,637	166,609
Total Credit Portfolio	171,702	214,313	228,459	259,632	225,950	221,412
Equity Investment at Enterprises	6,514	8,010	8,952	9,950	10,163	10,608
Equity Investment at Developers	1,532	1,539	1,637	1,638	1,732	1,784
Stock Equity Investment	95	59	269	180	295	30
Internal Debt	184,342	213,222	214,351	231,099	237,601	244,572
External Debt	44,054	63,533	71,927	79,944	71,823	67,909
Preventive reserve for credit risk	(3,999)	(4,464)	(4,511)	(3,971)	(4,047)	(5,244)
TOTAL PASSIVE	371,062	488,365	497,638	562,050	529,860	582,652
Accounting Capital	24,096	26,710	31,444	35,554	37,926	40,504
Assets in trust or under mandate	1,403,376	1,544,545	1,725,173	2,099,988	1,727,276	1,572,581
Endorsement Debtors and other Contingent Liabilities	64,414	53,520	235,458	260,974	191,074	218,927
Net Profit (Loss)	1,254	1,321	1,502	2,439	-2,272	-4,228
Capitalization Level (%)	13.6	13.3	14.5	14.5	17.0	18.5

TABLE 2

RAISING IN LOCAL CURRENCY *
(Millions of Pesos)

Instrument	2015	2016	2017	2018	2019	2020
Stock Exchange Certificates	40,000	50,524	56,698	59,491	64,765	60,089
Pg's Nafin	87,587	108,970	79,575	149,163	146,266	150,606
New Instruments	127,587	159,494	136,274	208,654	211,031	210,694
Time Deposits in National Currency	41,153	7,153	5,153	5,153	10,523	-
Various Deposits	8	1,129	1,505	1,637	323	2,655
Total	168,747	167,775	142,932	215,444	221,876	213,349

* It does not include interest

TABLE 3

**TOTAL EXTERNAL DEBT
BALANCE OF DECEMBER 31
(Millions of US dollars)**

Concepts	2015	2016	2017	2018	2019	2020
I. Direct Debt	2,550.20	3,076.30	3,652.30	4,059.60	3,801.00	3,409.35
A. Deposit Certificates (London)	1,139.50	1,387.40	2,066.70	2,274.80	1,779.30	1,962.22
B. Green Voucher	500.00	500.00	500.00	500.00	500.00	-
C. Yen Bond	-	-	222.00	227.80	230.10	242.18
D. Multilateral Agencies	6.30	4.50	3.30	1.50	0.50	-
E. Private Banck, Eximbank's and Suppliers	904.40	1,184.40	860.30	1,055.50	1,291.10	1,204.95
Accrued Interest	<u>3.80</u>	<u>4.90</u>	<u>5.70</u>	<u>8.50</u>	<u>6.40</u>	<u>1.66</u>
Total	<u><u>2,554.00</u></u>	<u><u>3,081.20</u></u>	<u><u>3,658.00</u></u>	<u><u>4,068.10</u></u>	<u><u>3,807.30</u></u>	<u><u>3,411.01</u></u>



ANNEX B

REPORT ON CONSOLIDATED
FINANCIAL STATEMENTS
WITH SUBSIDIARIES, AS OF
DECEMBER 31, 2020



Salles Sainz

Grant Thornton

**Consolidated Financial Statements and
Independent Auditor's Report**

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

December 31, 2020 and 2019

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Independent auditor's report

To the Board of Directors of:
Nacional Financiera, S.N.C., Institución de Banca de Desarrollo

Opinion

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

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

Basis for opinion

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

Emphasis paragraph

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

Key audit matters

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

Key audit matter	How the matter was addressed in the audit
Derivatives. See Note 9 to the consolidated financial statements	
<p>The determination of fair value of some derivative financial instruments designated as hedges as of December 31, 2020 is carried out, by using valuation techniques that involve significant judgments made by Management, primarily when the use of inputs is required that are obtained from various sources or data not observed on the market and complex valuation models.</p> <p>In addition, the requirements that must be met for recording financial instruments designated as hedges in the accounting records, as well as the documentation and monitoring for testing their effectiveness involve a certain degree of specialization by Management.</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 to assess the reasonableness of valuation through selective tests thus assisting us in understanding and evaluating the assumptions, methodologies, and input data used by the Institution for the determination of the fair value of derivative financial instruments, and the appropriate compliance with the criteria and documentation to be considered as such for hedging transactions, hedge effectiveness, and an appropriate disclosure and presentation in the consolidated financial statements, in adherence with accounting criterion B-5.</p>

Loan portfolio and allowance for loan losses. See Note 9 and 10 to the consolidated financial statements

As discussed in Note 4 a), beginning April 2020, the Institution applied the special accounting criteria issued by the Banking Commission for dealing with the economic impact brought on by the pandemic, relative to the loan portfolio set out in the “General and Specific Guidelines for rescheduling amortizations of the borrowers of the Institution in dealing with the circumstances brought about by the SARS-CoV2 (COVID-19) virus”, which set forth the rules for implementing the benefits and support granted in the term provided for by the Commission.

The documentation on the agreements with customers for rescheduling credits, verification of meeting requirements for granting the benefit were the basis for carrying out the adjustments to the process and the operating system that enables accounting treatment and presentation, in conformity with special accounting criteria, which meant a significant change in how that portfolio is managed.

As discussed in Note 3 j), the allowance for loan losses of the commercial loan portfolio is determined in accordance with the classification rules and portfolio rating set forth by the Banking Commission. That methodology involves significant judgments for the evaluation of the credit rating of debtors, considering the various qualitative and quantitative factors used in the loan portfolio rating process, as well as for evaluating the reliability of the documentation and restatement for the determination of the allowance for loan losses of the loan portfolio.

As part of our audit procedures, we performed an analysis of the processes and controls implemented by Management for identifying, quantifying, and managing the credits to the customers to whom special accounting criteria were applied. In addition, our sample included credits subject to the special accounting criteria for performing substantive audit tests focused on verifying the accounting recognition, in conformity with the accounting criteria issued.

As part of our audit procedures applied on a selective basis to evaluate the correct determination by Management of the allowance for loan losses and their effect on income for the year, we evaluated the qualitative and quantitative factors used, as well as the calculation mechanism applied, and their adherence to the current methodologies for each type of loan portfolio, as set forth by the Banking Commission. Moreover, in conformity with the General Provisions applicable to Lending Institutions (the Provisions or the CUBs - for its acronym in Spanish) issued by the Banking Commission, we verified the compliance with the accounting recognition of the additional reserves as at December 31, 2020, which was carried out based on the methodology that was authorized by the Banking Commission. Those reserves considered the possible effects to be generated pursuant to the pandemic caused by the SARS-CoV2 (COVID-19) virus.

<p>Employee benefits. See Note 20 to the consolidated financial statements</p>	
<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 consolidated financial statements. The determination of the liability corresponding to those plans as of December 31, 2020 was performed through complex actuarial calculations that require significant judgments in the selection of the hypotheses used for the determination of the projected net liability of labor obligations. Due to the foregoing and movements of the personnel of the Institution, as well as early retirements and considerable changes in the hypotheses performed in 2020, that liability was considered as a key audit matter.</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>
<p>Income taxes and Employee statutory profit sharing, current and deferred. See Note 21 to the consolidated financial statements</p>	
<p>The determination of income taxes and employee statutory profit sharing, current and deferred, is complex, due to the interpretation of currently enacted tax legislation. It further requires significant judgments, fundamentally on the valuation of deferred income taxes assets and employee statutory profit sharing to evaluate present and future factors that allow for the best estimate on the realization of those assets.</p>	<p>The audit procedures applied to the calculations made by Management for the recognition of income taxes and employee statutory profit sharing, current and deferred included selective tests of the inputs used and the nature of the items incorporated into those calculations, considering currently enacted tax legislation.</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 income taxes assets will be recovered.</p>

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements of the Institution as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to continue as a going concern.

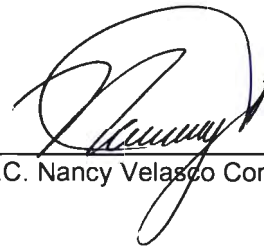
- Obtain sufficient appropriate audit evidence regarding the financial information of the subsidiaries or business activities within the Institution to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We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

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

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

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

SALLES, SAINZ - GRANT THORNTON, S.C.



C.P.C. Nancy Velasco Contreras

Mexico City, Mexico
February 25, 2021

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

Assets	2020	2019	Liabilities and Stockholders' Equity	2020	2019
Cash and cash equivalents (Note 6)	\$ 76,799	\$ 61,803	Deposit funding (Note 15)		
Margin accounts	165	21	Time deposits		
Investment securities (Note 7)			Money market	\$ 136,051	\$ 145,441
Trading	224,048	211,124	Debt securities issued		
Available-for-sale	17,453	16,522	In the Country:		
Held-to-maturity	13,063	13,042	Stock certificates (Note 16)	61,099	65,817
	254,564	240,688	Abroad		
Debtors on repurchase/resell agreements (Note 8)	180	9,550	Bank bonds (Note 17)	39,073	33,581
Derivatives (Note 9)			Stock notes	4,829	13,826
Trading purposes	5,911	1,870		241,052	258,665
Hedging purposes	3,461	1,461	Bank and other borrowings (Note 18)		
	9,372	3,331	Due on demand	26,397	8,669
Valuation adjustment from hedging of financial assets	4,934	2,161	Short-term	8,216	11,319
Current loan portfolio			Long-term	15,791	13,094
Commercial loans				50,404	33,082
Business or commercial activity	51,721	51,829	Creditors on repurchase/resell agreements (Note 8)	247,648	200,418
Financial entities	165,900	163,983	Derivatives (Note 9)		
Government entities	3,143	9,274	Trading purposes	5,974	1,917
	220,764	225,086	Hedging purposes	8,147	5,795
Consumer loans	15	20		14,121	7,712
Residential mortgages loans	94	104	Valuation adjustments from hedging financial liabilities	4,150	73
Loans granted as Federal Government Financial Agent	-	9	Other accounts payable (Note 19)		
Total current loan portfolio	220,873	225,219	Income tax payable	73	101
Past-due loan portfolio			Employee statutory profit sharing payable		-
Commercial loans			Creditors on settlement of transactions		7,405
Business or commercial activity	528	488	Creditors on collateral received in cash	2,652	319
Financial institutions	-	228	Sundry creditors and other accounts payable	2,773	3,560
	528	716		5,498	11,385
Consumer loans	6	6	Deferred credits and prepayments	72	82
Residential mortgages loans	5	9			
Total past-due loan portfolio	539	731	Total liabilities	562,945	511,417
Loan portfolio	221,412	225,950	Stockholders' equity (Note 22)		
(-) less:			Paid-in capital		
Allowance for loan losses	(8,071)	(7,953)	Capital stock	9,293	9,202
Total loan portfolio, net (Note 10)	213,341	217,997	Contribution for future capital increases formalized	13,178	7,264
Other accounts receivable, net (Note 11)	37,392	6,867	Paid stock premium	15,510	14,225
Foreclosed assets, net (Note 12)	-	-		37,981	30,691
Property and equipment, net (Note 13)	1,444	1,483	Earned capital		
Permanent investments and other investments (Note 14)	2,939	2,904	Statutory reserves	1,730	1,730
Deferred income taxes and employee statutory profit sharing, net	3,088	3,260	Retained earnings	5,817	8,089
Other assets			Result from valuation of available for sale securities, net	(74)	5
Deferred income charges, prepaid expenses and intangibles	831	865	Result on valuation of cash flow hedge instruments	1	-
	831	865	Remeasurements of defined employee benefits, net	(1,358)	(1,442)
Total assets	\$ 605,049	\$ 550,930	Effects of valuation in associate and affiliate companies	635	1,125
			Net income	(4,228)	(2,272)
				2,523	7,235
			Non-controlling interest	1,600	1,587
			Total stockholders' equity	42,104	39,513
			Total liabilities and stockholders' equity	\$ 605,049	\$ 550,930

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

Memorandum accounts (Note 23)

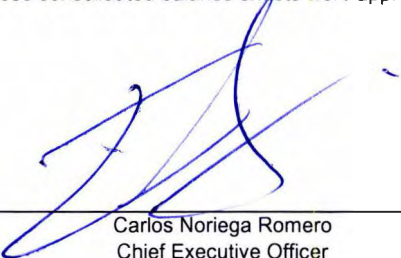
	<u>2020</u>	<u>2019</u>
Contingent assets and liabilities	\$ 77,729	\$ 80,109
Loan commitments	299,403	282,255
Assets placed in trust or mandate		
Trusts	1,572,581	1,691,894
Mandates	14,444	13,864
	<u>1,587,025</u>	<u>1,705,758</u>
Federal Government Financial Agent	389,477	368,085
Assets in custody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

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

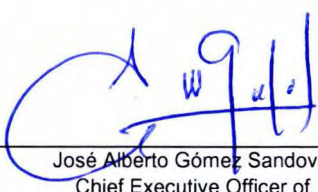
At December 31, 2020 and 2019, the historical capital stock, in accordance with the Regulation of the Organic Law of Nacional Financiera, S. N. C., I. B. D amounts to \$2,390 in both years.

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

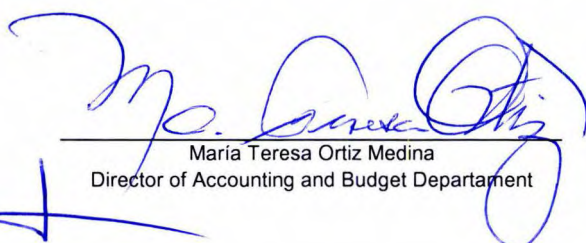
These consolidated balance sheets were approved by the Board of Directors, under the responsibility of the following officers.



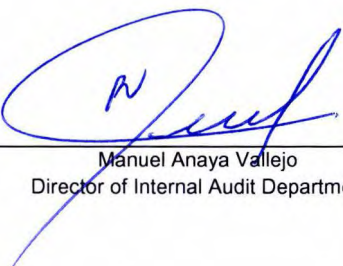
 Carlos Noriega Romero
 Chief Executive Officer



 José Alberto Gómez Sandoval
 Chief Executive Officer of
 Finance and Administration



 María Teresa Ortiz Medina
 Director of Accounting and Budget Department



 Manuel Anaya Vallejo
 Director of Internal Audit Department

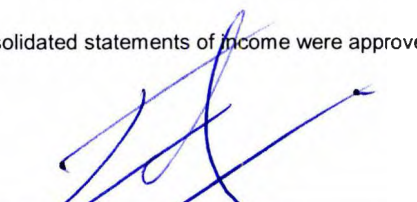
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 Years ended December 31, 2020 and 2019
 Consolidated Statements of Income
 (Millions of Mexican pesos)

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

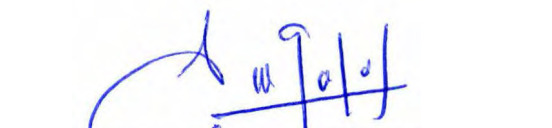
These consolidated statements of income were prepared in accordance with the Accounting Criteria for Lending Institutions issued by the National Banking and Securities Commission, based on Articles 99, 101, and 102 of the Law for Lending Institutions which are of a general and mandatory nature and have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

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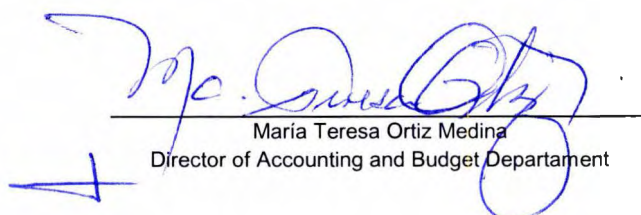
These consolidated statements of income were approved by the Board of Directors, under the responsibility of the following officers.



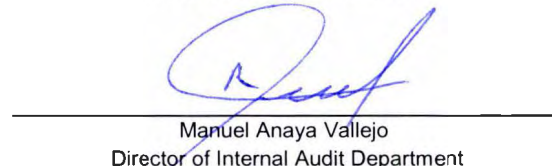
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See accompanying notes to consolidated financial statements.

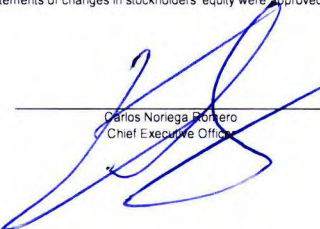
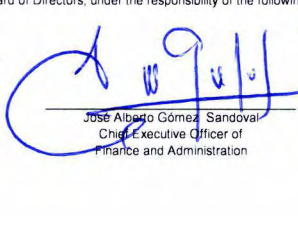

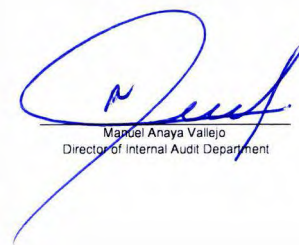
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Av. Insurgentes Sur 1971, Col. Guadalupe Inn, Zip Code 01020 Mexico City
Years ended December 31, 2020 and 2019
Consolidated Statements of Changes in Stockholders' Equity
(Millions of Mexican pesos)

	Paid in capital					Earned capital						
	Capital stock	Contributions for future capital stock increases formalized by the Board of Directors	Paid stock premium	Statutory reserves	Retained earnings	Result from valuation of available-for-sale securities	Result on valuation of cash flow hedge instruments, net	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, 2018	\$ 9,202	\$ 1,376	\$ 14,225	\$ 1,730	\$ 5,650	\$ (202)	\$ -	\$ 32	\$ 1,102	\$ 2,439	\$ 1,563	\$ 37,117
Changes resulting from stockholders' resolutions:												
Appropriation of prior year income	-	-	-	-	2,439	-	-	-	-	(2,439)	-	-
Contributions for future capital stock increases	-	5,888	-	-	-	-	-	-	-	-	-	5,888
Total	-	5,888	-	-	2,439	-	-	-	-	(2,439)	-	5,888
Changes related to the recognition of comprehensive income												
Net income	-	-	-	-	-	-	-	-	-	(2,275)	-	(2,275)
Result from valuation in associated and affiliated companies	-	-	-	-	-	-	-	-	23	-	-	23
Result from valuation of available-for-sale securities	-	-	-	-	-	207	-	-	-	-	-	207
Remeasurements of defined employee benefits, net	-	-	-	-	-	-	-	(1,474)	-	3	-	(1,471)
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	24	24
Total of changes related to the recognition of comprehensive income	-	-	-	-	-	207	-	(1,474)	23	(2,272)	24	(3,492)
Balances as of December 31, 2019	9,202	7,264	14,225	1,730	8,089	5	-	(1,442)	1,125	(2,272)	1,587	39,513
Changes resulting from stockholders' resolutions:												
Appropriation of prior year income	-	-	-	-	(2,272)	-	-	-	-	2,272	-	-
Contributions for future capital stock increases	-	7,290	-	-	-	-	-	-	-	-	-	7,290
Capitalization of contributions for future capital stock increases	91	(1,376)	1,285	-	-	-	-	-	-	-	-	-
Total	91	5,914	1,285	-	(2,272)	-	-	-	-	2,272	-	7,290
Changes related to the recognition of comprehensive income												
Net income	-	-	-	-	-	-	-	-	-	(4,173)	-	(4,173)
Result from valuation in associated and affiliated companies	-	-	-	-	-	-	-	-	(490)	-	-	(490)
Result from valuation of available-for-sale securities, net	-	-	-	-	-	(79)	-	-	-	-	-	(79)
Result on valuation of cash flow hedge instruments, net	-	-	-	-	-	-	1	-	-	-	-	1
Remeasurements of defined employee benefits, net	-	-	-	-	-	-	-	84	-	-	-	84
Non-controlling interest	-	-	-	-	-	-	-	-	-	(55)	13	(42)
Total of changes related to the recognition of comprehensive income	-	-	-	-	-	(79)	1	84	(490)	(4,228)	13	(4,699)
Balances as of December 31, 2020	\$ 9,293	\$ 13,178	\$ 16,510	\$ 1,730	\$ 5,817	\$ (74)	1	\$ (1,358)	\$ 635	\$ (4,228)	\$ 1,600	\$ 42,104

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

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

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

			
Carlos Noriega Romero Chief Executive Officer	José Alberto Gómez Sandoval Chief Executive Officer of Finance and Administration	María Teresa Ortiz Medina Director of Accounting and Budget Department	Maribel Anaya Vallejo Director of Internal Audit Department

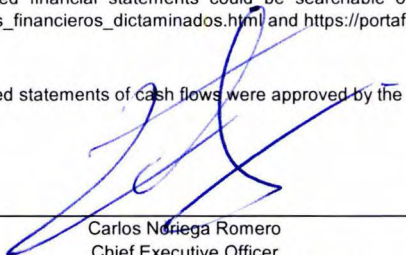
Nacional Financiera, S. N. C.,
 Institución de Banca de Desarrollo and Subsidiaries
 Av. Insurgentes Sur 1971, Col. Guadalupe Inn, Zip Code 01020 Mexico City
 Years ended December 31, 2020 and 2019
 Consolidated Statements of Cash Flows
 (Millions of Mexican pesos)

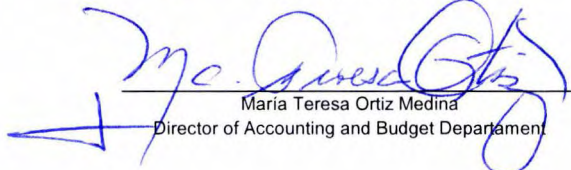
	<u>2020</u>	<u>2019</u>
Net Income	\$ (4,228)	\$ (2,272)
Adjustments for items not requiring cash flow:		
Allowance for uncollectible or doubtful accounts (Note 11)	3,353	585
Depreciation of property, furniture and equipment	41	37
Provisions	144	133
Current and deferred income taxes	559	(844)
Equity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


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

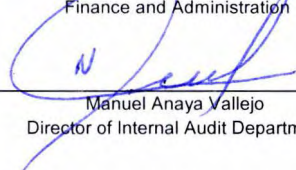
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These consolidated statements of cash flows were approved by the Board of Directors, under the responsibility of the following officers.


 Carlos Noriega Romero
 Chief Executive Officer


 Maria Teresa Ortiz Medina
 Director of Accounting and Budget Department


 José Alberto Gómez 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, 2020 and 2019

(Millions of Mexican pesos)

1. NATURE OF OPERATIONS AND MAIN ACTIVITIES

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

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

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

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

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

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

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

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

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

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

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

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

IMPACTS OF COVID-19 AND CONTINGENCY PLAN FOR BUSINESS CONTINUITY

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

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

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

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

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

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

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

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

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

Authorization

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

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

Bases of presentation

a) Statement of compliance

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

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

b) Use of estimates and judgments

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

Significant management judgments

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

Assumptions and uncertainties in the estimates

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

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

c) Functional and reporting currency

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

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

d) Recognition of assets and liabilities from financial instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Consolidation of financial statements

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

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

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

b. Impact of inflation

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

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

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

c. Cash and cash equivalents

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

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

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

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

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

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

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

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

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

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

d. Margin accounts

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

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

e. Investment securities

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

Trading securities

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

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

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

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

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

Available for sale securities

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

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

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

Held to maturity securities

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

Securities impairment

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

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

Value date transactions

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

Reclassification between categories

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

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

f. Repurchase/resell agreements

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

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

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

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

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

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

g. Derivatives

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

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

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

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

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

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

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

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

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

h. Offsetting clearing accounts

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

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

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

i. Loan portfolio

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

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

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

Past-due loans and interest

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

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

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

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

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

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

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

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

Sustained payment

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

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

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

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

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

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

Restructuring and renewals

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

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

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

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

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

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

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

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

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

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

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

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

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

Cost and expenses related to loan origination

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

j. Allowance for loan losses

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

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

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

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

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

<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 as of December 31, 2020 and 2019, 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 allowance for the non-revolving consumer loans portfolio is described in articles 91 and 92 of the Provisions. The total allowance amount for each loan is the result of multiplying the probability of default by the loss severity and exposure to default.

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

<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 statements of income 90 days after their initial recording, if they correspond to identified items and 60 days if the balances are unidentified, regardless of their chance of recovery, except for tax-related (VAT included) balances.

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

l. Foreclosed assets or assets received in lieu of payment

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

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

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

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

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

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

<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 statements of income caption "Other operating income (loss)", except if are from prior periods to the acquisition, in which case are decreased from the permanent investment.

o. Other assets

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

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

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

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

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

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

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

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

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

q. Deposit funding

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

r. Provisions

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

s. Bank and other borrowings

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

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

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

Long-term direct benefits

The Institution's net obligation in relation to direct long-term benefits (except for deferred 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, and life insurance for retirees.

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

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

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

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

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

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

u. Revenue recognition

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

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

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

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

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

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

v. Foreign currency transactions

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

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

w. Memorandum accounts

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

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

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

x. Contingencies

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

4. CHANGES IN ACCOUNTING POLICIES

a. Special 2020 accounting criteria

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

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

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

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

- ii. *Credits with periodic principal and interest payments.*- The credits that were restructured with a term to maturity not exceeding 6 months beginning the date on which they would have matured, recorded as performing portfolio as of February 28, 2020, in accordance with official letter P285/2020 and as of March 31, 2020, in accordance with official letter P325/2020, and completing the restructuring formalities no later than 120 calendar days after the date referred to above. In conformity with the special accounting criteria, they were considered as performing portfolio since the Provisions set forth in paragraphs 82 and 84 of accounting criterion B-6 were not applied, which set forth the following for this type of credits:
- Without at least 80% of the original term of the credit having elapsed, they will continue to be considered as performing, only when the borrower has covered the total accrued interest and principal of the original amount of the credit, which should have been covered as of the date of the renewal or restructuring (Paragraph 82).
 - During the course of the final 20% of the original term of the credit, they will only be considered as performing when the borrower has liquidated the total accrued interest and principal of the original amount of the credit that should have been covered as of the date of the renewal or restructuring, as well as having covered 60% of the original amount of the credit (Paragraph 84).
- iii. *Credits whose revolving character is stipulated since their inception.*- The credits that were restructured or renewed within 120 calendar days subsequent to February 28, 2020, in accordance with official letter P285/2020 and as of March 31, 2020, in accordance with official letter P325/2020 were not considered as a performing portfolio in terms of the Provisions of paragraph 80 of accounting criterion B-6, which requires that the borrower should have:
- Liquidated the total interest due and payable; and
 - Covered the total payments to which the borrower is bound, in terms of the agreement as of the restructuring or renewal date.

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

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

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

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

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

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

- ii. Defer the collection of fees to financial brokers for up to 6 months, exclusively when those brokers grant their borrowers the benefit of deferring the capital and interest payment on the proportionate part of each portfolio corresponding to the credits that receive such a benefit; and
- iii. Extend the maximum guarantee period granted to revolving credits up to 6 months in those credits that receive the benefit of deferred payments.

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

Rescheduled credits in reliance on the special accounting criteria	
Commercial portfolio (local currency)	
First tier	\$ 919
Second tier	3,261
Total Commercial portfolio (local currency)	\$ 4,180
Commercial portfolio (foreign currency)	
First tier	\$ 2,364
Second tier	2,195
Total Commercial portfolio (foreign currency)	\$ 4,559
Total Portfolio	\$ 8,739
Guarantees with COVID support	
	2020
Automatic	\$ 28,632
Selective	635
Total	\$ 29,267

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

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

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

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

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

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

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

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

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

b. Accounting criteria 2019

During 2019 there were no changes in accounting policies.

5. FOREIGN CURRENCY POSITION

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

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

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

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

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

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

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

6. CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

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

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

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

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

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

7. INVESTMENT SECURITIES

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

Trading

	2020			
	Acquisition cost	Accrued interest	Valuation	Book value
<i>Unrestricted:</i>				
Shares of Fondo de Desarrollo del Mercado de Valores (FDMV)	\$ 68	\$ -	\$ (38)	\$ 30
Bonds	4,824	6	7	4,837
Certificates	7,356	16	(11)	7,361
CETES	2,264	3	1	2,268
Bank promissory notes	1,400	-	-	1,400
<i>Restricted:</i>				
Bonds	110,439	-	80	110,519
Certificates	17,644	-	10	17,654
CETES	435	-	-	435
Ipabonos	79,239	3	55	79,297
Bank promissory notes	237	1	-	238
Equity investments	9	-	-	9
	\$ 223,915	\$ 29	\$ 104	\$ 224,048
	2019			
	Acquisition cost	Accrued interest	Valuation	Book value
<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:</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
	\$ 210,713	\$ 62	\$ 349	\$ 211,124

Available for sale

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

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

Held-to-maturity:

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

	2019		
	Acquisition cost	Accrued interest	Book Value
<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
	<u>3,667</u>	<u>1,963</u>	<u>5,630</u>
	<u>\$ 8,735</u>	<u>\$ 4,307</u>	<u>\$ 13,042</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

	2020				
	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)	\$ -	\$ -	\$ -	\$ 68	\$ 68
Bonds	-	2,531	2,293	-	4,824
Certificates	1	50	7,305	-	7,356
CETES	123	46	2,095	-	2,264
Bank promissory notes	1,400	-	-	-	1,400
<i>Restricted:</i>					
Bonds	-	3,523	106,916	-	110,439
Certificates	-	335	17,309	-	17,644
CETES	-	-	435	-	435
Ipabonos	-	-	79,239	-	79,239
Bank promissory notes	237	-	-	-	237
Equity investments	-	-	-	9	9
	\$ 1,761	\$ 6,485	\$ 215,592	\$ 77	\$ 223,915
2019					
	Less than a month	Between one and three months	More than three months	Without term	Total
<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
	\$ 15,504	\$ 1,832	\$ 193,081	\$ 296	\$ 210,713

Available for sale

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

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

Held-to-maturity:

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

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

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

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

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

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

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

Issuers over 5% of Institution's net capital-

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

2020					
Issuer	Serie	Number of securities	Annual average rate	Average term	Amount
FEFA	Various	240,218,200	4.85%	778	\$ 24,092
PEMEX USD	Various	1,318,562	5.93%	2,882	2,804
PEMEX EUR	Various	4,500	2.96%	645	114
PEMEX GBP	Various	5,000	3.75%	1,462	129
2019					
Issuer	Serie	Number of securities	Annual average rate	Average term	Amount
FEFA	Various	244,941,153	8.06%	1,117	\$ 24,579
IBANOBRA	Various	9,044,171,114	7.27%	7	9,023
SHF	Various	17,150,000	6.29%	231	1,711
PEMEX USD	Various	148,313	5.79%	2,374	2,749
PEMEX EUR	Various	7,000	3.01%	1,499	153
PEMEX GBP	Various	5,000	3.75%	1,828	128

8. REPURCHASE/RESELL AGREEMENTS

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

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

9. DERIVATIVES

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

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

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

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

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

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

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

Swaps trading purposes:

	<u>2020</u>			<u>2019</u>		
<u>Interest rate</u>	<u>Contract value</u>	<u>Receivable</u>	<u>Deliverable</u>	<u>Contract value</u>	<u>Receivable</u>	<u>Deliverable</u>
	\$ 201,500	\$ 5,911	\$ 5,974	\$147,592	\$ 1,870	\$ 1,899

Swaps hedging purposes:

	<u>2020</u>			<u>2019</u>		
<u>Interest rate</u>	<u>Contract value</u>	<u>Receivable</u>	<u>Deliverable</u>	<u>Contract value</u>	<u>Receivable</u>	<u>Deliverable</u>
	\$ 72,031	\$ 3,461	\$ 8,147	\$ 94,004	\$ 1,461	\$ 5,795

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

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

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

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

Trading Swaps (with impact in statements of income):

	<u>2020</u>	<u>2019</u>
Interest rate	\$ (63)	\$ (29)

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

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

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

Use of derivative financial instruments policy management (unaudited)-

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

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

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

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

Processes and levels of authorization

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

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

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

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

Independent reviews

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

Generic description of valuation techniques

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

Valuation methodology

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(3) Notional amount traded during the year.

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

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

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

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

(3) Notional amount traded during the year.

Formal documentation of hedges

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

- I. File cover letter.
- II. Authorization of the hedge.
- III. Diagram of the strategy.

IV. Evidence of prospective tests of hedge effectiveness.

V. Evidence of execution of the derivative.

VI. Details of the primary position being hedged.

VII. Derivative confirmation.

Sensitivity analysis

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

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

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

10. LOAN PORTFOLIO

(a) Classification of loan portfolio by currency

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

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

Past due portfolio:

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

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

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

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

(b) Classification of loan portfolio by economic sector

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

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

(c) Additional loan portfolio information

Annual weighted lending rates (unaudited):

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

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

* Includes commercial, financial and government entities loans.

Restructured and renewed loans:

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

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

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

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

Past-due portfolio:

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

	1 a 180 days	181 a 365 days	366 a 730 days	Over 2 years	Total
2020					
Commercial*	\$ -	\$ -	\$ -	\$ 528	\$ 528
Consumer	1	1	-	4	6
Mortgage	3	-	-	2	5
	\$ 4	\$ 1	\$ -	\$ 534	\$ 539
	1 a 180 days	181 a 365 days	366 a 730 days	Over 2 years	Total
2019					
Commercial *	\$ -	\$ -	\$ 227	\$ 489	\$ 716
Consumer	1	3	1	1	6
Mortgage	4	3	-	2	9
	\$ 5	\$ 6	\$ 228	\$ 492	\$ 731

* Includes commercial, financial and government entities loans.

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

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

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

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

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

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

Impaired loan portfolio:

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

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

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

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

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

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

Adjustment from valuation of financial asset hedging:

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

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

(d) Allowance for loan losses

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

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

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

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

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

Credit rated portfolio

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

Allowance for loan losses

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

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

Credit rated portfolio

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

Allowance for loan losses

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

Additional reserves recognized by the Banking Commission	700
Allowance for assignment of lines of guarantees	3,505
Total	\$ 7,953

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

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

11. OTHER ACCOUNTS RECEIVABLE, NET

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

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

12. FORECLOSED ASSETS

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

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

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

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

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

13. PROPERTY AND EQUIPEMENT, NET

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

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

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

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

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

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

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

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

14. PERMANENT INVESTMENTS AND OTHER INVESTMENTS

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

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

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

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

15. DEPOSIT FUNDING

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

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

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

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

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

Time deposits from money market

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

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

16. DEBT SECURITIES ISSUED IN THE COUNTRY

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

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

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

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

Stock certificates

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

Green bond

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

Social bond

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

Valuation adjustments from financial liabilities hedging

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

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

17. CREDIT SECURITIES ISSUED ABROAD

Bank bonds

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

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

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

Stock notes:

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

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

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

18. BANK AND OTHER BORROWINGS

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

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

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

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

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

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

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

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

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

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

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

	2020	2019
Central Bank	\$ 212	\$ 201
Kreditanstalt Fur Wiederaufbau Frankfurt	785	682
Banco Interamericano de Desarrollo	1,708	1,619
Total	\$ 2,705	\$ 2,502

19. OTHER ACCOUNTS PAYABLE

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

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

20. EMPLOYEE BENEFITS**a) Defined contribution retirement plan-**

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

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

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

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

b) Defined benefits retirement plan-

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net liability (asset) reameasurements for defined benefits

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

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

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

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

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

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

2019				
Concept	Pension	Seniority premium	Other retirement benefits	Financial credit cost
Net (liability) assets for defined benefits at the beginning of year	\$ (110)	\$ (4)	\$ 162	\$ (101)
Net period cost	196	2	572	128
Contributions	(196)	(2)	(572)	(128)
Remeasurements of liabilities or (assets) recognized in OCI	180	6	2,099	173
Net (liability)/ asset for defined benefits	\$ 70	\$ 2	\$ 2,261	\$ 72

Net period cost				
Labor cost	\$ 11	\$ 2	\$ 114	\$ 14
Financial cost	111	-	50	41
Return on assets	24	-	167	28
Recycling of remeasurements	50	-	241	45
Net period cost	\$ 196	\$ 2	\$ 572	\$ 128

Net liability (asset) reameasurements for defined benefits

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

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

Main hypothesis used:

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

Financial position

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

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

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

Reserve and OCI reconciliation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deferred IT and ESPS

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

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

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

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

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

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

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

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

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

Other considerations:

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

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

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

Tax losses carryforwards

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

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

22. STOCKHOLDERS' EQUITY**Capital stock**

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

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

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

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

Contributions for future capital stock increases

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

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

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

Paid stock premium

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

Capital reserve

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

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

Dividends declared

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

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

Comprehensive income

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

Restrictions on stockholders' equity

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

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

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

Capitalization (unaudited)

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

a) Basic and supplementary capital

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

b) Assets adjusted for market risks

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

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

c) Assets adjusted for credit risks

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

Weighted assets subject to credit risk by risk group

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

d) Assets adjusted for operational risks

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

Weighted assets subject to operational risk

Used method	Assets weighted by risk	Capital requirements
Basic benchmark	\$11,194	\$895
Average market and credit risk requirement of the last 36 months	\$14,632	Annual average of positive net income for the past 36 months \$5,970

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

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

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

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

2. Ratio of net capital with the balance sheet:

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

BS8	Total loan portfolio (net)	216,168
BS9	Receivable benefits on securities trading	
BS10	Other receivables (net)	37,233
BS11	Foreclosed assets (net)	-
BS12	Property and equipment (net)	7
BS13	Permanent investments */	29,252
BS14	Long-lived assets available for sale	
BS15	Deferred income taxes (net)	3,753
BS16	Other assets	<u>806</u>
Liabilities:		
BS17	Deposit funding	259,422
BS18	Bank and other borrowings	50,404
BS19	Creditors on repurchase/resell agreement	247,648
BS20	Securities lending	
BS21	Collateral sold or furnished as a guarantee	-
BS22	Derivatives	14,121
BS23	Valuation adjustments of hedging financial liabilities	4,150
BS24	Debentures in securities trading	
BS25	Other accounts payable	6,834
BS26	Outstanding unsecured obligations	
BS27	Deferred income taxes (net)	-
BS28	Deferred credits and prepayments	<u>72</u>
Stockholders' equity:		
BS29	Capital stock	37,981
BS30	Earned capital	<u>2,523</u>
Balance sheet amounts		
Balance sheet Items Reference	Balance sheet items (unconsolidated)	
Memorandum Accounts:		
BS31	Guarantees granted	-
BS32	Contingent assets and liabilities	87,558
BS33	Loan commitments	131,369
BS34	Assets placed in trust or mandate	1,590,822
BS35	Federal Government Financial Agent	389,477
BS36	Assets in custody or administration	539,714
BS37	Collateral received by the entity	3,098
BS38	Collateral received and sold or pledged as a guarantee by the entity	3,100
BS39	Investment banking transactions on behalf of third party (net)	57,781
BS40	Interest earned but not collected arising from past due – loan portfolio	1
BS41	Other memorandum accounts	707,194

*/ Includes other investments.

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

Identifier	Regulatory items considered for the calculation of net Capital	Reference to the disclosure form of the capital integration of section 1 to this exhibit	Amount of combination with notes to regulatory concepts considered for the calculation of net capital components	Reference(s) of the balance sheet item and the related amount to the regulatory concepts considered for the calculation of net capital from the aforementioned reference
	Assets:			
3	Deferred income taxes (in favor) from losses and tax credits	10	715	
15	Investments in multi-lateral agencies	26 - D	652	
17	Investment in risk capital	26 - F	3,881	
18	Investments in mutual funds	26 - G	236	
22	Investments of the defined benefits pension plan	26 - N	17,609	Informative uncomputed data main
	Shareholders' equity:			
34	Paid in capital in accordance with exhibit 1-Q	1	\$ 37,981	
Identifier	Regulatory items considered for the calculation of net capital	Reference to the disclosure form of the capital integration of section 1 to this exhibit	Amount of combination with notes to regulatory concepts considered for the calculation of net capital components	Reference(s) of the balance sheet item and the related amount to the regulatory concepts considered for the calculation of net capital from the aforementioned reference
35	Prior year income	2	5,817	
37	Other capital earned elements other than the foregoing	3	-3,930	

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

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

<u>Ref.</u>	<u>Characteristics</u>	<u>Option</u>
1	Issuer	Nacional Financiera, Sociedad Nacional de Crédito
2	Identifier ISIN, CUSIP or Bloomberg	In conformity with Article 30 of Credit Institutions Law, Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, is governed by its internal regulations, holders of Series "A", capital contribution certificates, if applicable will have the rights set forth in article 35 of the Lending Institutions Law and article 12 of internal regulations of Nacional Financiera
3	Legal framework	
	<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
<u>Ref.</u>	<u>Characteristics</u>	<u>Options</u>
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	

4. Capital management.

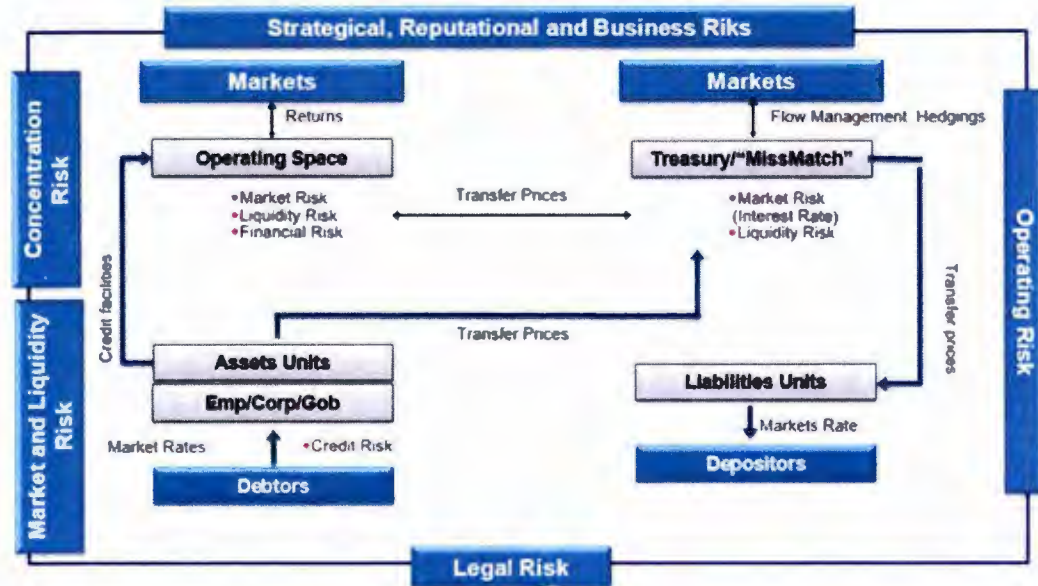
The framework for risk management must facilitate and support the measurement and monitoring of quantifiable risks, ensuring solid risk measurements to establish the Institution's risk appetite and generate value.

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

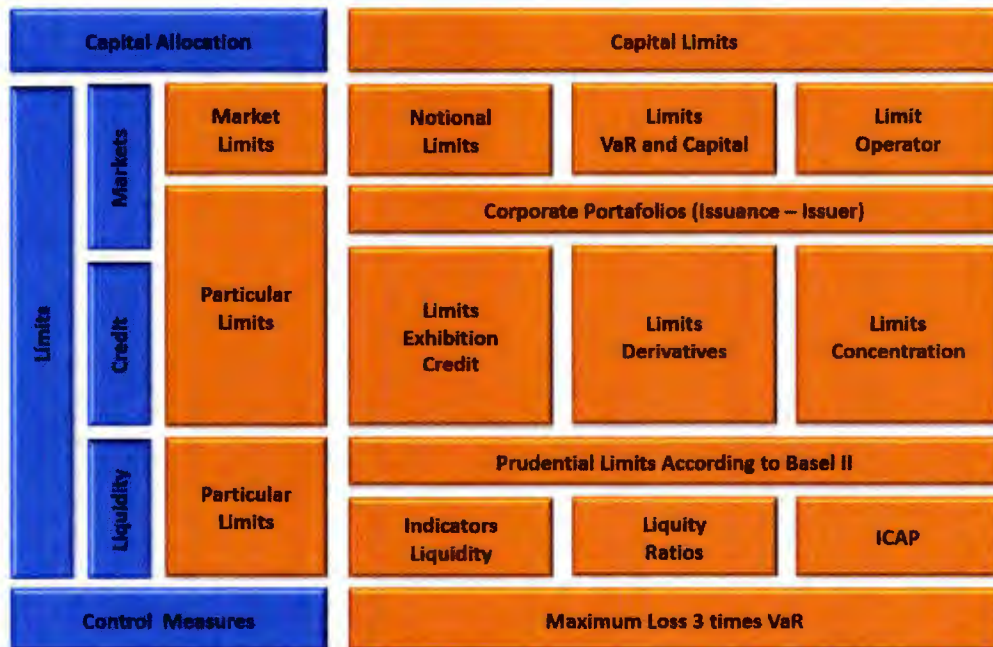
A fundamental point of departure for establishing limits is the definition of a business model that describes the exposure to different types of risk that generate the different operating units in the Institution.

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

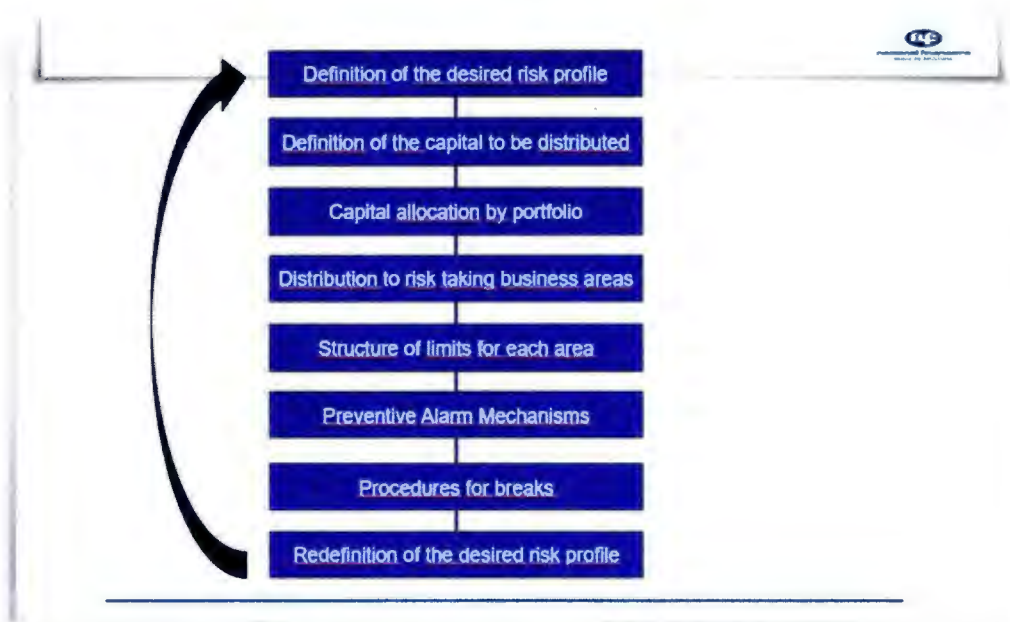
- Operation desks: their main function is to generate revenues through the operation in different financial markets, (money, foreign exchange, capital and foreign currency bonds).
- Asset units: are those that encompass the promotion activities of the Institution and are derived from credit activities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



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



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



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

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



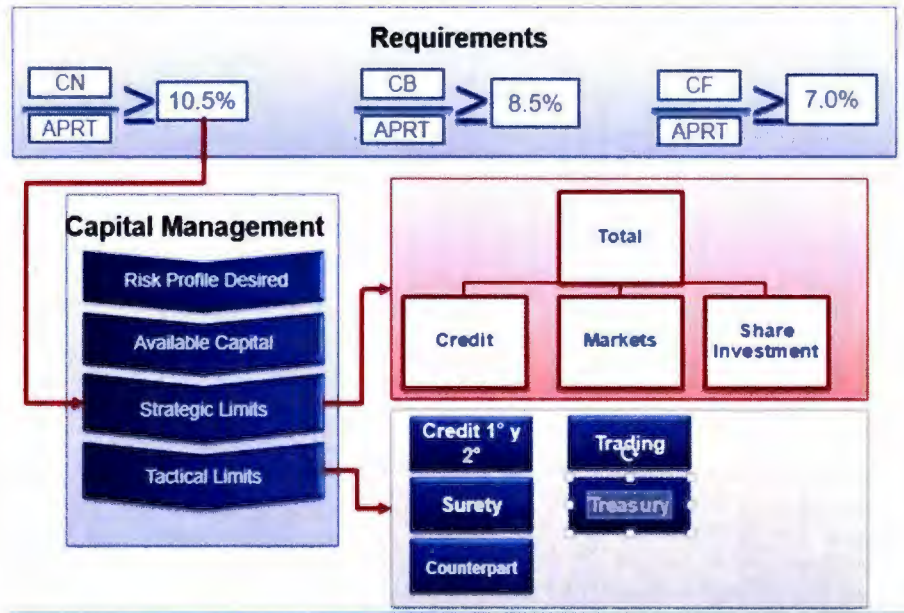
This increase of 250 basis point in the ICAP is a strong regulator that will replace the capital volatility for risk profile and operational risk previously held.

Capital limits structure

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

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

In summary the Institution has:



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

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



There are three basic scenarios:

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

Finally, in order to have the capacity to obtain resources and continue operating under a stress scenario, in which the Institution's capital 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, 2020 and 2019, this caption amounts to \$77,729 and \$80,109, respectively, integrated as follows:

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

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

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

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

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

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

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

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

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

Credit commitments

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

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

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

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

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

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

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

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

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

Assets in custody or administration

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

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

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

Other memorandum accounts

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

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

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

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

24. ADDITIONAL INFORMATION ON OPERATIONS AND SEGMENTS

Segment information (unaudited)-

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

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

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

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

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

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

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

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

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

2019 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 áreas	22,191	4.0	22,191	4.0	179	(7.9)
Retirement benefit and expense	-	-	-	-	(8,620)	379.50
Total	\$ 550,930	100	\$ 550,930	100	\$ (2,272)	100

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial margin-

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

	2020		
	Total	Local currency	Foreign currency
Interest income:			
Interests of performing and nonperforming loan portfolio:			
Commercial loans	\$ 3,284	\$ 1,479	\$ 1,805
Mortgage loans	3	3	-
Loans to government entities	438	408	30
Credits granted as agent of the Federal Government			
Loans to financial entities	10,827	10,492	335
	\$ 14,552	\$ 12,382	\$ 2,170

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

2019

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

Interests and returns earned on investments in securities:			
Trading securities	1,606	1,606	-
Securities available for sale	321	-	321
Securities held to maturity	730	694	36
	\$ 2,657	\$ 2,300	\$ 357
Interests and returns earned on repurchase/ resell agreements:			
Repurchase/ resell agreements	\$ 21,134	\$ 21,134	-
Cash and cash equivalents interest:			
Banks	337	-	337
Restricted cash and cash equivalents	1,712	1,688	24
	\$ 2,049	\$ 1,688	\$ 361
Commissions from credit operations: (return adjustment)			
Commercial loans	109	109	-
Interest and returns from margin accounts	2	2	-
Gain (loss) from hedging transactions	(7,201)	(6,372)	(829)
Premium on debt placement	12	12	-
Equity dividends, net	18	18	-
Gain from valuation	79	7	72
	\$ (6,981)	\$ (6,224)	\$ (757)
Total interest income	\$ 38,623	\$ 35,907	\$ 2,716
Interest expenses:			
Interest from time deposits	13,971	13,876	95
Interest on securities issued	5,678	4,289	1,389
Interest paid on interbank loans and other agencies	943	494	449
Interests and returns paid on repurchase / resell agreements	19,266	19,265	1
Expenses from operations of:			
Expenses from hedge trading	(7,095)	(6,053)	(1,042)
Discounts for debt issued	71	71	-
Issuance expenses due to debt placement	17	8	9
Loss from valuation	1	1	-
Total interest expenses	\$ 32,852	\$ 31,951	\$ 901
Financial margin	\$ 5,771	\$ 3,956	\$ 1,815

Commission and fee income -

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

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

Commissions and fees paid:

Loans received	10	2	8
Debt placement	3	2	1
Others (services)	169	166	3
	\$ 182	\$ 170	\$ 12

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

Financial intermediation income -

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

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

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

Other operating income (expenses)

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

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

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

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

Administration and promotion expenses

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

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

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

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

Financial ratios (unaudited)

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

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

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

25. COMMITMENTS AND CONTINGENCIES

Leases

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

Claims and trials

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

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

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

Labor liabilities

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

26. RISK MANAGEMENT (UNAUDITED INFORMATION)

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

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

processes (unaudited numbers).

Discretionary quantifiable risks

1. Market risk

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

The following general principles, stand out:

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

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

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

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

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

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

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

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

Markets	
Amount VaR \$69.454 MDP	
Trading VaR \$31.788 MDP	Treasury VaR \$37.666 MDP

2. Management of assets and liabilities

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

3. Liquidity risk

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

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

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

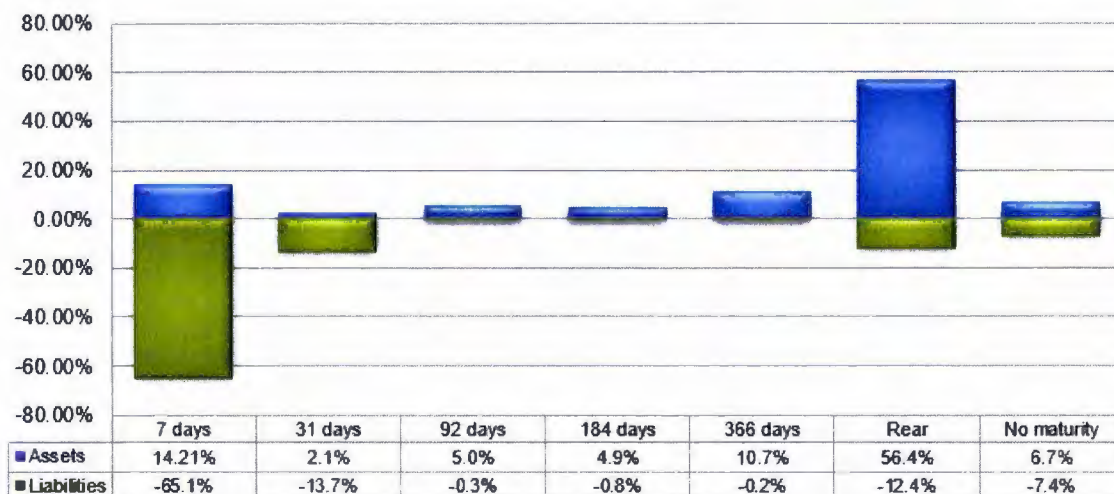
4. Maturity profile in local currency

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

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

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

Den LC maturity profile

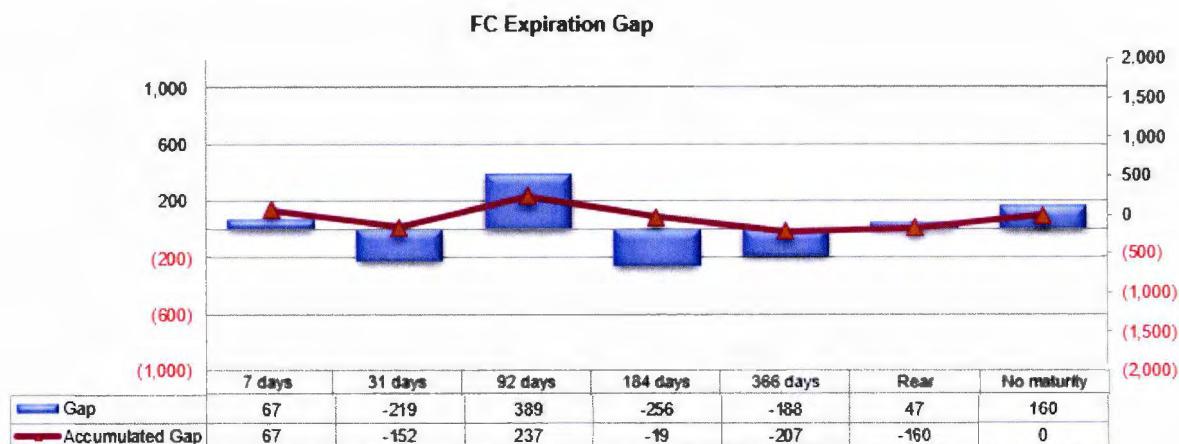


5. Maturity profile in foreign currency

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

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

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



6. Estimate of gain or loss on advance sale

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

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

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

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

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

7. Credit risk

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

8. Expected loss

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

Considering this methodology, the following assumptions are also established:

- The portfolio of former employees is excluded, in order to directly measure the effect of the expected losses of the portfolio with risk from the private sector.
- The contingent portfolio of the credit to the Trust for the Participation to Risks is not considered since this trust is in charge of managing its credit risk.
- Additional reserves are not included.
- The financial agent portfolio is not considered as it is a portfolio without risk
- The nonperforming portfolio is considered, since according to the portfolio qualification methodology based on expected loss, when an event of default occurs, it does not imply that the expected loss is reserved at 100%.

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

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

9. Unexpected loss

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

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

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

- The similarity of concepts existing between the proposed economic methodology and the capital requirement for credit risk estimated from the Basilea II basic approach. This approach allows institutions to estimate with internal methods the capital requirement necessary to support their risk.
- High levels of correlation and similarity in the average capital requirement observed during a year of internal implementation of the proposed credit portfolio unexpected loss methodologies.

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

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

10. Counterparty risk and diversification

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

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

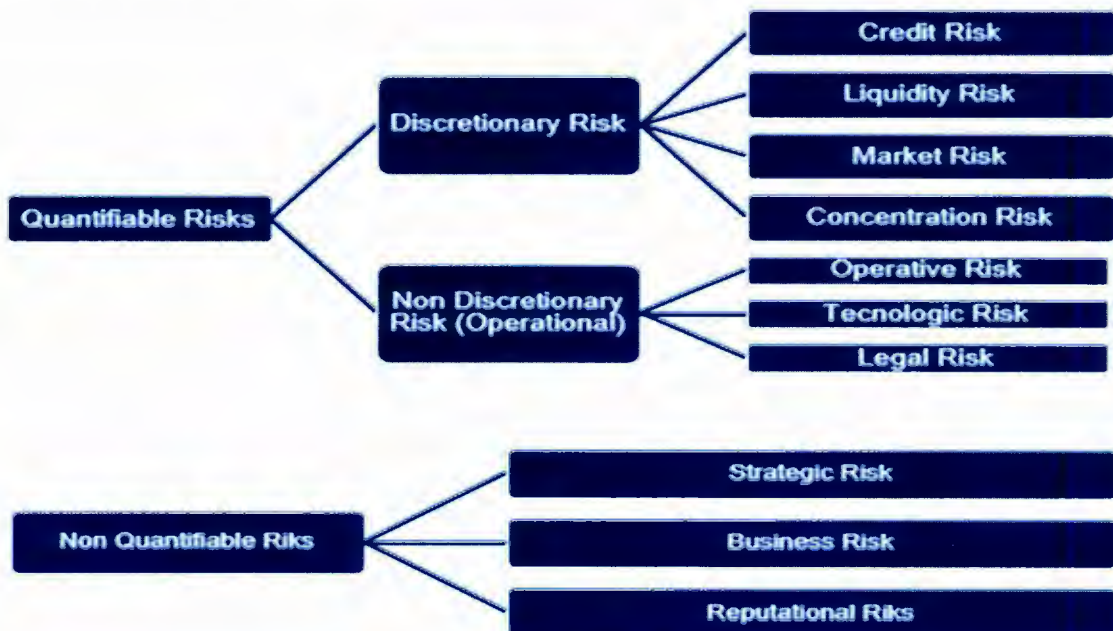
You have the following number of financings (credit and market operations) that exceed 10% of the basic capital individually:

<u>Number of financing</u>	<u>Total amount</u>	<u>Capital percentage</u>
22	\$ 202,387.5	647.03%

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

11. Operational risk and non-quantifiable

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



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

- Operational Risk: potential losses derived from failures or deficiencies of internal controls, due to errors in the processing and storage of operations.
- Technological risk: potential losses derived from damages, interruption, alteration or failures derived from the use or dependence on hardware, software, systems, applications, networks and any other channel of information distribution in the provision of banking services with customers of the Institution that derive in errors in the processing and storage of operations or in the transmission of information.
- Legal Risk: potential losses derived from the applicable legal and administrative provisions, the issuance of unfavorable administrative and judicial resolutions and the application of sanctions, in relation to the operations carried out by the institutions.

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

- Strategic risk: potential losses by deficiencies in the decision-making process, in the implementation of procedures and actions to carry out the business model and strategies of the Institution, as well as the lack of knowledge about the risks to which it is exposed by the development of its business activity and that affect expected results to achieve the objectives agreed upon by the Institution in its strategic plan.
- Business risk: potential losses attributable to the inherent characteristics of the business and changes in the economic cycle or environment in which the Institution operates.
- Reputation risk: potential losses in the development of the activity of the Institution proceeding from the impairment in perception that have the different parties concerned, both internal and external, on its solvency and viability.

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

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

- It is the responsibility of the Operational Risk Sub-Direction to define the procedures for the management of inherent and residual operational risks, economic loss events, tolerance levels, risk limits, amounts of probable potential losses derived from judicial resolutions or administrative unfavorable litigation in which the Institution is the plaintiff.
- None of the procedures defined for these risks may be modified or altered, only with the authorization of the Integral Risk Management Committee and annually by the Board of Directors.
- The necessary evidence will be available to manage non-discretionary and non-quantifiable risks.
- The tools that have been developed or acquired by the Institution will be used to manage operational risk and non-quantifiable risks.

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

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

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

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

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

Methodologies, limits and tolerance levels.

Method to determine the capital requirement for operational risk.

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

Non-discretionary risks: Operational risk

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

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

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

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

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

Non-discretionary risks: Technological risk

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

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

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

Legal risk

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

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

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

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

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

Risks on the assets of the Institution

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

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

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

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

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

NON-QUANTIFIABLE RISKS

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

- Strategic risk. -The institution has a methodology based on defining, documenting, and following-up on the Institution’s Management strategies, which, each year are defined and approved, as well as presented to the Board of director, at least on a quarterly basis, for the decision making and mitigation of detected risks.
- Business risk. - Four indicators that help to identify the possible materialization of the risks that could affect the Institution derived from movements in the financial environment and the economic cycle were defined as a methodology to manage this risk. These indicators are given monthly monitoring through risk reports.
- Reputation risk. - For the administration of this risk, a Communication Plan was defined applied and monitored by the Social Communication Management, said Plan considers the attention to the minimum requirements issued by the Banking Commission in the Provisions regarding the reputation risk. The Social Communication Management monitors the events that affect the negative perception that is held internally or externally of the Institution. As a control of this risk, the IRMC is informed at least quarterly.

OPERATIONAL RISK RESULTS

Results of self-assessments

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

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

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

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

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

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

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

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

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

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

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

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

Results of the events of economic losses.

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

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

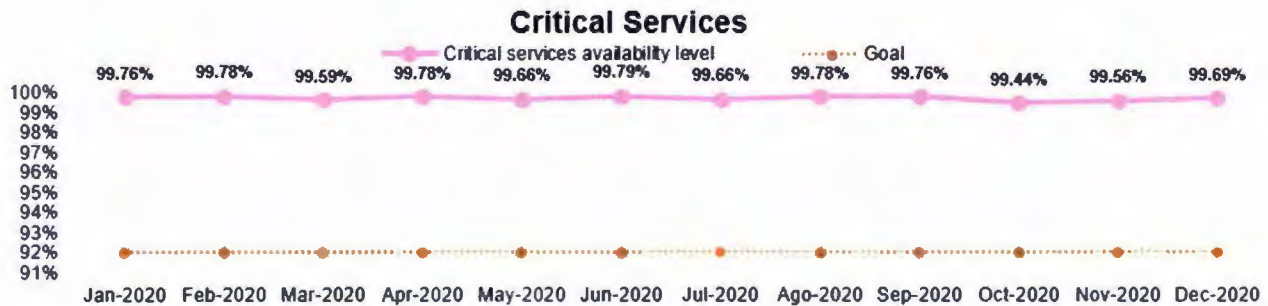
* Due to the fact that there were periods when the probable economic impact was very small and it is expressed in millions, the figure is not necessarily shown.

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

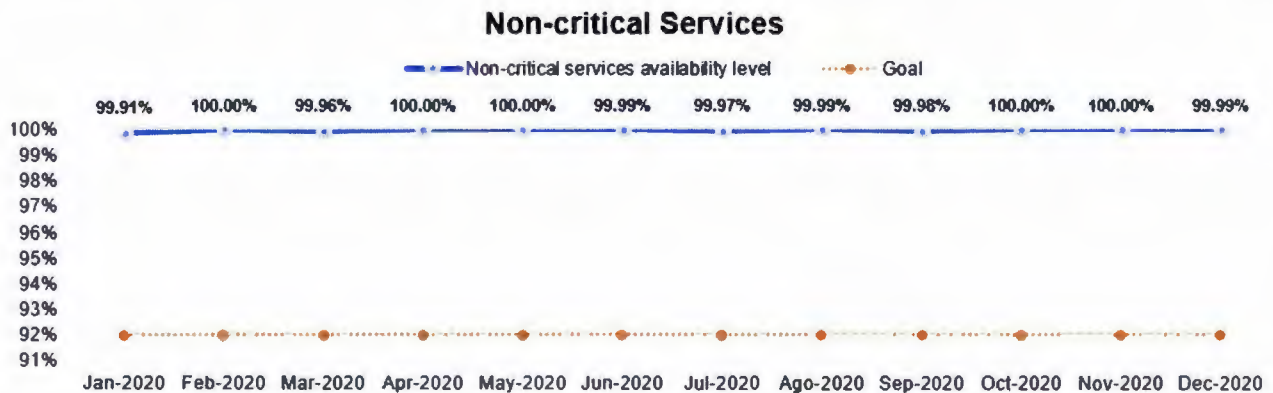
Result of technological risk indicators

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

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



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



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

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

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

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

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

Result of the legal risk

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

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

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

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

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

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

- And the favorable ruling handed down in benefit of the Institution of 3 amparos related to the Federal Remunerations of Public Servants, PEF 2019, and Manual of Remunerations, Retirements, Rights and Obligations applicable to white collar employees, and the Institution was released from paying benefits claimed in the amount of \$2.98.
2. The litigation portfolio reports an amount of \$12.66, that had a 6.80% increase with respect to the prior year end closing, which is equivalent to an amount of \$0.81. 50 non-labor lawsuits filed against Nacional Financiera, S.N.C. were concluded. Favorable rulings were handed down in 100% of them and the Institution was absolved of the total amount claimed.
 3. The trust contingency portfolio reports an amount of \$157.30, which had a 1.36% increase with respect to the prior year end, which is equivalent to an amount of \$2.11. The provision for Trusts underwent a 0.87% decrease, which is equivalent to the amount of \$0.16 with regard to the prior year. The clear lack of force was obtained on the ruling handed down of a tax liability amounting to \$383,800 that the National Banking and Securities Commission had assessed on the Institution for inspection fees and oversight of tax year 2016 in connection with a trust.

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

Non-quantifiable risks

Results in the affectations to the patrimonial assets of the Institution

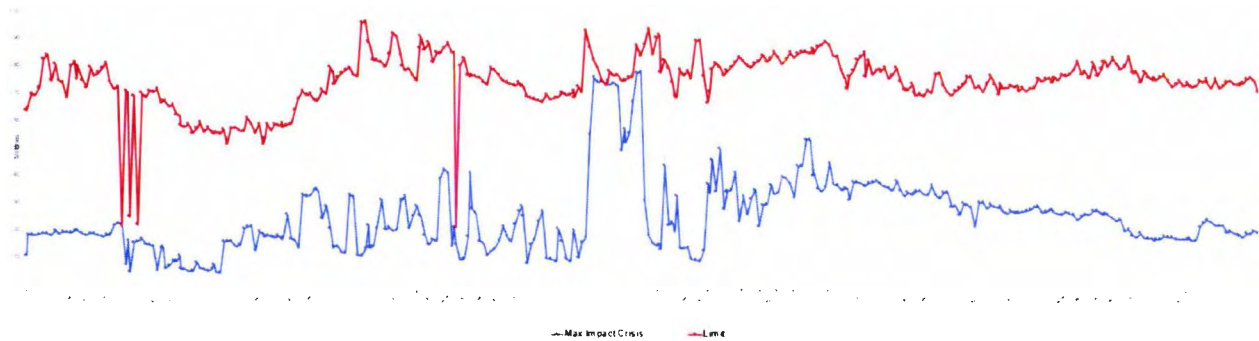
Two claims were reported in 2020 that affected the Institution’s capital assets related to *electronic cellular telephones and material damage to real property*, in a deductible amount of \$572.9.

Strategic risk

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

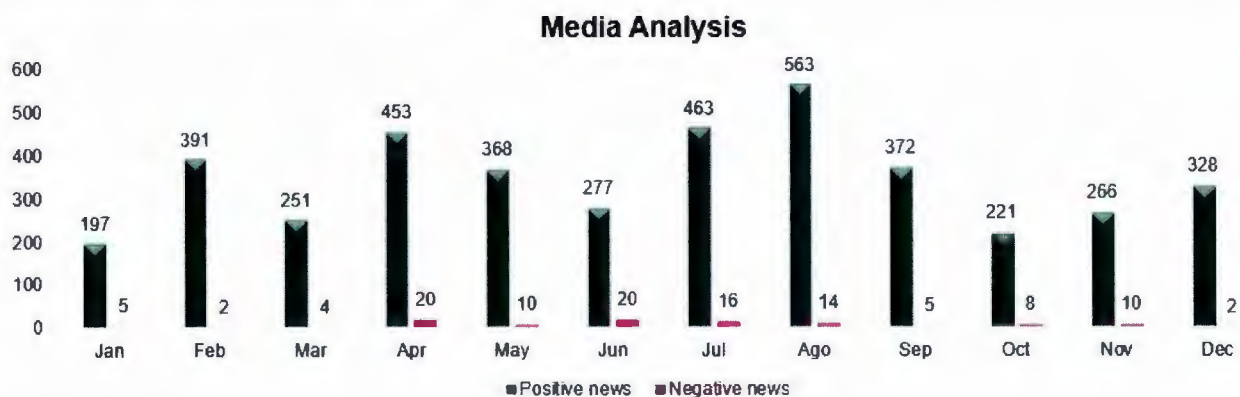
Business risk

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



Reputation risk

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



Ratio leverage

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

**TABLE I.1
STANDARDIZED DISCLOSURE FORMAT FOR THE LEVERAGE RATIO**

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

7	(Deductions to accounts receivable for variation margin in cash contributed in operations with derivative financial instruments)	-
8	(Exposure due to transactions in derivative financial instruments on behalf of customers, in which the settlement partner does not grant its guarantee in case of breach of the obligations of the Central Counterparty)	N.A.
9	Adjusted notional cash amount of the credit derivative financial instruments subscribed	N.A.
10	(Offsetting made to the adjusted notional cash of the credit derivative financial instruments subscribed and deductions of the additional factors by the credit derivative financial instruments subscribed)	N.A.
11	Total exposure to derivative financial instruments (sum of lines 4 and 10)	2,042
Exposures for financing transactions with securities		
12	Gross SFT assets (without recognition offsetting), after adjustments for accounting transactions for sales	3,100
13	(Accounts payable and receivable from SFT compensated)	- 3,100
14	Counterparty Risk Exposure by SFT	228
15	Exposures by SFT acting on behalf of third parties	-
16	Total exposures from securities financing transactions (sum of lines 12 to 15)	228
Other off-balance sheet exposures		
17	Off balance sheet exposures (gross notional amount)	218,928
18	(Adjustments for conversion to credit equivalents)	- 197,035
19	Items out of balance (sum of lines 17 and 18)	21,893
Capital and total exposures		
20	Tier 1 capital	34,385
21	Total exposures (sum of lines 3, 11, 16 and 19)	631,078
Leverage ratio		
22	Basel III leverage ratio	5.45%

**TABLE II.1
ADJUSTED ASSETS AND TOTAL ASSETS COMPARATIVE**

REFERENCE	DESCRIPTION	AMOUNT
1	Total assets	624,321
2	Adjustment for investments in the capital of banking, financial, insurance or commercial entities that are consolidated for accounting purposes, but are outside the scope of regulatory consolidation	-
3	Adjustment related to trust assets recognized in the balance sheet in accordance with the accounting framework, but excluded from the exposure measure of the leverage ratio	N.A.
4	Derivative financial instruments adjustment	- 12,264

5	Repurchase/resell agreements and securities lending transactions adjustment	-	2,872
6	Adjustment for items recognized in the balance sheet		21,893
7	Other adjustments		-
8	Exposure of the leverage ratio		631,078

TABLE III.1
RECONCILIATION OF TOTAL ASSETS AND EXPOSURE WITHIN THE BALANCE

REFERENCE	CONCEPT	AMOUNT	
1	Totales assets		624,321
2	Derivative financial instruments transactions	-	14,306
3	Repurchase/resell and securities lending transactions	-	3,100
4	Trust assets recognized in the balance sheet in accordance with the accounting framework, but excluded from the exposure measure of the leverage ratio		N.A.
5	Exposures in the Balance		606,915

TABLE IV.1
MAIN CAUSES OF THE MAJOR VARIATIONS OF THE ELEMENTS
(NUMERATOR AND DENOMINATOR) OF LEVERAGE RATIO

CONCEPT/QUARTER	Nov 20	Dec 20	VARIATION (%)
Basic capital	32,319	34,385	6.4%
Adjusted assets	566,555	631,078	11.4%
Leverage ratio	5.70%	5.45%	-4.5%

27. RECENTLY ISSUED FINANCIAL REPORTING STANDARDS

On March 13, 2020, the National Banking and Securities Commission (CNBV) published various modifications to the “General Provisions applicable to Lending Institutions” in the Official Daily Gazette (DOF - for its acronym in Spanish), which set out that the effectiveness of the modifications would be on January 1, 2021. However, considering the sanitary contingency, the extension to the effectiveness of the modifications was published in the DOF on December 4, 2020, and the new effective date was set to begin on January 1, 2022.

Included in the modifications are updates to accounting criteria applicable to lending institutions, in order to make them consistent with national and international financial reporting standards. The most relevant accounting changes are discussed below:

Accounting Criterion A-2 “Application of particular standards”

Certain Mexican Financial Reporting Standards (FRS) issued by the CINIF were incorporated to have them apply to lending institutions. Those FRS are as follows:

B-17 “Determination of fair value”, C-16 “Impairment of financial instruments receivable”, C-19 “Financial instruments payable”, C-20 “Financial instruments for collecting principal and interest”, D-1 “Revenue from contracts with customers”, and D-2 “Costs of contracts with customers”.

Accounting Criteria B-6, “Loan portfolio” and D-2 “Statement of income”

Accounting criteria applicable to lending institutions are adjusted in order for them to be able to reverse the surpluses in the balance of allowances for loan losses in the period in which they occur, as well as for recognizing the recovery of credits previously written off against the caption of “Allowance for loan losses” in the consolidated statement of income.

New pronouncements issued by the CINIF

The CINIF) has issued FRS and Improvements discussed below:

FRS C-16 “Impairment of financial instruments receivable” - It goes into effect for fiscal years beginning January 1, 2022. It sets forth standards for the accounting recognition of impairment losses of all financial instruments receivable (IFC - for its acronym in Spanish). It sets forth when and how an expected impairment loss must be recognized and it sets out the methodology for its determination.

The main changes included in this FRS consist of determining when and how expected impairment losses of IFC must be recognized, including:

- It sets forth that impairment losses of an IFC must be recognized when loan losses has increased and it is concluded that part of the future cash flows of the IFR will not be recovered.
- It proposes that the expected loss be recognized based on the historical experience that the entity has of credit losses, current conditions, and reasonable and sustainable forecasts of the different quantifiable future events that might affect the amount of future cash flows recoverable of IFRs.
- With regard to IFCs, it sets forth that it should be determined how much and when the amount of IFCs are expected to be recovered, since the recoverable amount must be at its present value.

FRS C-19 “Financial instruments payable” - It goes into effect for fiscal years beginning January 1, 2022. The main characteristics that this FRS has are shown below:

- It sets forth the possibility of subsequently valuing certain financial liabilities at their fair value subsequent to their initial recognition when certain conditions are met.
- Value long-term liabilities at their present value in their initial recognition. Restructuring a liability without substantially modifying future cash flows to pay it in full, the costs, and fees disbursed in this process will affect the amount of the liability and they will be amortized at a modified effective interest rate, instead of being allocated directly to net income or loss.
- It incorporates the Provisions IFRIC 19 “Extinction of Financial Liabilities with Capital instruments”. This subject matter was not included in the existing standard.
- The effect of extinguishing a financial liability must be presented as a financial gain or loss in the statement of comprehensive income.
- It introduces the items of amortized cost items for valuing financial liabilities and the effective interest method, based on the effective interest rate.

FRS C-20 “Financial instruments for collecting principal and interest” - It goes into effect for fiscal years beginning January 1, 2022. The main aspects that it covers are as follows:

- The classification of financial instruments in assets. The concept of intent of acquisition and holding such instruments is ruled out for determining their classification. In its place, management's business model concept is adopted either to obtain a contractual return, generate a contractual return, and sell to meet certain strategic objectives, or to generate profits from their purchase and sale, to classify them according to the corresponding model..
- The effect of valuation of investments in financial instruments is also focused on the business model.
- Reclassification of financial instruments is not permitted between classes of financial instruments for collecting principal and interest (IFCPI), that of financial instruments receivable and for sale (IFCV), and that of negotiable financial instruments, unless the business model of the entity is changed.
- The embedded financial instrument, which modifies the flows of the principal and interest of the host receivable financial instrument, is not separated, but rather all the IFCPI will be valued at its fair value, as if it were a marketable financial instrument.

FRS D-1 “Revenues from customer contracts” - It sets forth the standards for the accounting recognition of revenues that arise from contracts with customers and become effective for fiscal years that start, beginning January 1, 2022 It eliminates the suppletory application of International Accounting Standard (IAS) 18 “Revenues”, IAS 31 “Revenue Swaps from advertising services”, IFRIC 13 “Customer Loyalty Programs”, and IFRIC 18 “Transfers of assets from customers”.

In addition, this FRS, together with FRS D-2, repeals Bulletin D-7 “Construction and manufacturing contracts of certain capital goods” and INIF 14 “Construction contracts, sale and rendering of services related to real property” The main changes included are as follows:

- It sets forth the transfer of control as the basis for the timeliness of revenue recognition.
- It requires that obligations to be met in a contract be identified.
- It indicates that the allocation of the amount of the transaction between obligations to be met should be carried out based on independent sales prices.
- It introduces the concept of “contract assets”.
- It requires that collection rights be recognized.
- It sets forth requirements and guidance on how to value the variable consideration and other aspects, upon valuing the revenue.

FRS D-2 “Costs of contracts with customers” - It sets forth the standards for the book recognition of the costs of sales of goods and services rendered It goes into effect for fiscal years beginning January 1, 2022. Together with FRS D-1 “Revenues from contracts with customers” repeals Bulletin D-7 “Construction contracts and manufacturing certain capital goods” and INIF 14 “Construction contracts, sale and rendering of services related to real property”, except what concerns the recognition of assets and liabilities in this type of contracts within the scope of other FRS.

Its main change is the separation of the standard relative to the recognition of revenues from contracts with customers, the separation corresponding to the recognition of costs of contracts with customers. In addition, it extends the scope that Bulletin D-7 had referring exclusively to costs related to construction and manufacturing contracts of certain capital goods in order to include costs related to all types of contracts with customers.

Considering that the changes not only involve accounting subjects, but that they have an impact on the operations that are carried out by the business areas of the Institution, Management is in the process of engaging a service provider that works with it in the process of “Diagnosis and implementation of the modifications to the General Provisions applicable to Lending Institutions”, in order for the Institution to be able to comply with the Provisions of the Supervisory Agency referred to above in due time and proper form.

28. SUBSEQUENT EVENT TO THE REPORTING DATE


As discussed in Note 22, on December 31, 2020, the Federal Government, through the Ministry of Finance and Public Credit, made contributions for future capital increases in the amount of \$7,290 million pesos. On February 24, 2021, the Board of Directors held a meeting in which one of the agreements approved was to increase the maximum capital stock of the Institution to go from \$3,000 authorized in 2020 to \$4,500. The administrative formalities were authorized to modify Article 7 of the General Regulations of Nacional Financiera, with regard to the authorized maximum capital, and set the value of the premium that should be paid by subscribers of certificates of capital contribution (CAPs), which are issued for those contributions.

29. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

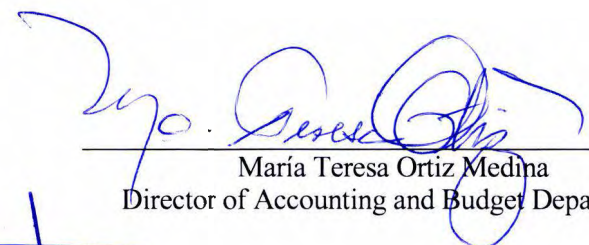
On February 25, 2021, the officers who signed the consolidated financial statements, authorized the issuance of the accompanying consolidated financial statements and related notes. These accompanying notes are part of the consolidated financial statements as of December 31, 2020 and 2019.



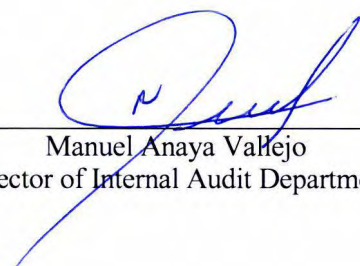
Carlos Noriega Romero
Chief Executive Officer



José Alberto Gómez Sandoval
General Director of Administration and Finance



María Teresa Ortiz Medina
Director of Accounting and Budget Department



Manuel Anaya Vallejo
Director of Internal Audit Department

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ANNEX C
DIRECTORY OF
REGIONAL AND
OVERSEAS OFFICES

CENTRAL REGIONAL OFFICE

Insurgentes Sur No. 1971, Torre IV, Piso 11, Col. Guadalupe Inn, Alcaldía Álvaro Obregón, Ciudad de México, C.P. 01020	Position
	Central Regional Director
	Eduardo Gonzalo Herrera Galicia
	egherrer@nafin.gob.mx
	Tel: 01(55) 5325-6000 Ext 6132

NORTHEAST REGIONAL OFFICE

Abasolo 233, esq. con Jiménez Sur, Col. Centro, Torreón, Coah., C.P. 27000	Position
	Northeast Regional Director
	Joel Macías Ortega (Head of the Firm)
	jmacias@nafin.gob.mx
	Tel: 01(871) 454-1300

NORTHWEST REGIONAL OFFICE

Paseo de los Héroes 10289, Piso 8, Zona Urbana Río Tjuana, Tijuana B.C., C.P. 22010	Position
	Northwest Regional Director
	Fernando de la Rosa Medina
	fdearosa@nafin.gob.mx
	Tel.: 01(55) 5325-6000 Ext 1412

WESTERN REGIONAL OFFICE

<p>Av. Rubén Darío 1109, Int. 5-A, Col. Providencia, Guadalajara, Jal., C.P. 44620</p>	Position
	Western Regional Director
	Martín Maisterra Vaca
	mmaisterra@nafin.gob.mx
	Tel: 01(333) 648-5501 y 02

SOUTH REGIONAL OFFICE

<p>Calle 20 No. 235, oficina 714, Col. Altabrisa, Mérida, Yuc., C.P. 97130</p>	Position
	South Regional Director
	Adrián Plata Monroy
	aplata@nafin.gob.mx
	Tel: 01(999) 948-4878, 83 y 84

LONDON BRANCH

<p>London Branch 19th Floor, 100 Bishopsgate, London EC2M 1GT</p>	Position
	General Director
	Martha Susana Berruecos García Travesí
	Sberruecos@nafin.co.uk
	Tel: 00 44(0)20 3867 9776
	Calling form Mexico City: (55)5351-8361 / (55)5351-8349
Calling from New York City, N.Y.: (646)843-6057 / (646)861-7870	

THE INFORMATION IN THIS ACTIVITY
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THE FINANCIAL PLANNING AND
PROGRAMING DIRECTORATE.
EDITING WAS OVERSEEN BY THE
MARKETING AND BUSINESS
POSITIONING DIRECTORATE.



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2020