BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS, SOCIEDAD NACIONAL DE CRÉDITO, INSTITUCIÓN DE BANCA DE DESARROLLO

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO

Financial statements and independent auditors' report for the years ended December 31, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Banco Nacional de Obras y Servicios Públicos, Sociedad
Nacional de Crédito, Institución de Banca de Desarrollo

(Millions of Mexican pesos)

Opinion

We have audited the accompanying financial statements of Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo (the "Bank" or the "Institution"), which include the balance sheet at December 31, 2020 and 2019, and the statements of income, changes in stockholders' equity, and cash flows for the year then ended, and a summary of the significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo at December 31, 2020 and 2019 have been prepared, in all material respects, in conformity with the accounting criteria set forth by the National Banking and Securities Commission (the "CNBV" or "the Commission") in the General Provisions applicable to Credit Institutions (the "Circular" or "Provisions").

Basis for the opinion

We conducted our audit in accordance with International Auditing Standards ("IAS"). Our responsibilities in accordance with those standards are described hereinbelow in the "Auditor's responsibilities in connection with the audit of the financial statements" section of this report. We are independent of the Bank, in conformity with the Code of Professional Ethics of the Instituto Mexicano de Contadores Públicos, A.C., and we have met the other ethics responsibilities, in conformity with that code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit issues

Key audit issues are those matters which, according to our professional judgment, have been more significant in our audit of the financial statements of the year ended December 31, 2020. These issues have been addressed in the context of our audit of the overall financial statements, and in forming our opinion on them, and we do not express a separate opinion on these issues.

Allowance for loan losses

The allowance for loan losses involves significant judgments considered by Management for evaluating the creditworthiness of borrowers, by considering credit factors such as the probability of default, severity of the loss, and exposure to default, based on the portfolio rating models established by the CNBV. We consider this matter to be a key audit issue, due to the importance of the integrity and accuracy of the information that is used for their determination. The balance of the allowance for loan losses amounts to $11,835 at December 31, 2020.

Our audit procedures for addressing this key issue, among other things, included:

a) Tests on the design and operating efficiency of relevant controls for the managing and determining the allowance for loan losses including, among other things, those relative to information technology security and the integrity of the information generated by such systems.

b) Pursuant to selective tests, we review the calculation mechanism of the allowance for loan losses.

c) We reconciliation of the information generated by the systems involved in the calculation process of the allowance with the accounting records.

d) We evaluated the appropriate presentation and disclosure of the allowance for loan losses in the financial statements and their notes.

Derivative financial instruments

The determination of fair value of derivative financial instruments held for trading and designated as hedges involve a high degree of complexity, due to the significant judgments considered by Management in the valuation models, as well as inputs of information used from various market sources.

Our audit procedures for reviewing derivative financial instruments included:

a) Tests of the design and operating efficiency of the relevant controls for the managing and valuing financial instruments including, among other things, the uploading of data into the systems and integrity of the information issued and information technology security.

b) We compared key assumptions used as interest rate curves and exchange rate curves with data published by authorized institutions.

c) Pursuant to selective tests, we reviewed the valuation mechanism of derivative financial instruments carried out with Bank models.

d) We reconciled the position of instruments held at year-end, in accordance with the information generated by the systems involved in the operating process of derivative financial instruments with the accounting records.

e) We confirmed the position held at year-end with financial intermediaries and review of the counterparties of those instruments.

We reviewed the appropriate presentation and disclosure of derivative financial instruments for trading and designated as hedges in the financial statements and their notes.

In addition, we evaluated the appropriate disclosure by the Institution, in connection with interest earned in income, as specified in Note 26 to the financial statements.

Emphasis paragraph

On March 11, 2020, the World Health Organization declared the outbreak of the coronavirus ("COVID-19") as a pandemic, which led to uncertainty in the global economy and a contraction in liquidity levels and credit supply in the Mexican national economy in 2020. As described in greater detail in Note 3 to the accompanying financial statements, the Bank has implemented operating strategies to support economic reactivation and maintain dynamism in granting credit for infrastructure development with a high social impact, consisting of:

Promoting financial inclusion by granting credits to states and municipalities for development of priority works, the increase in temporary support programs to borrowers affected by the sanitary contingency, granting financing to strategic projects considered in the agreements for the development of infrastructure of the Government of Mexico and the private sector and the allocation of financing to works that benefit the most vulnerable population. Moreover, in April 2020, the Board of Directors of the Bank authorized a temporary support program to be implemented, in conformity with the Special Accounting Criteria issued by the National Banking and Securities Commission (CNBV), which consisted of deferring payments on capital and/or interest, including the corresponding accessories up to four months and a possible extension up to two more months to borrowers.

The effects generated by the economic impact of the COVID-19 pandemic are described in Note 3 to the financial statements as of December 31, 2020 and 2019.

Management's responsibilities and those responsible for the entity's governance in connection with the financial statements

Management is responsible for the preparation and fair presentation of the accompanying financial statements, in conformity with the rules, criteria, general and particular accounting official letters applicable to credit institutions issued by the CNBV, the Lending Institutions Act, and the Banco de Mexico Law, and internal control deemed necessary by management to permit the preparation of financial statements free from material misstatements, due to fraud or error.

In the preparation of financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, if applicable, the matters relative to the going concern and using the going concern accounting base, unless management has the intent to liquidate the Bank or suspend operations, or there is no other more realistic alternative.

The persons responsible for governance of the entity are responsible for supervising the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance that the overall financial statements are free from material misstatement, whether due to fraud or error, and issue an audit report that contains our opinion. Reasonable assurance is a high level of assurance, but it does not guarantee that an audit performed in conformity with IAS will always detect a material misstatement when it exists. Misstatements can be due to fraud or error and are considered material if it can be reasonably be foreseen that they individually or aggregately influence the economic decisions made by users based on the financial statements.

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

- Identified and assessed the risks of material misstatements of the financial statements, whether due to fraud or error. We designed and performed the audit procedures that deal with those risks and we obtained sufficient and appropriate audit evidence to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than in the case of a material misstatement due to error, since the fraud can implicate collusion, falsification, deliberate omissions, intentional misstatements or overriding internal control.

- We obtained knowledge of the internal control relevant to the audit in order to design audit procedures that are appropriate to the circumstances and not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- We evaluated the appropriateness of the accounting policies applied and the reasonableness of accounting estimates and corresponding information disclosed by management.

- We conclude on the appropriate use by management of the going concern accounting basis, and with the audit evidence obtained, we conclude as to whether or not there is a material misstatement related to the events or conditions that can raise significant doubts about the ability of the Bank to continue as a going concern. If we conclude that there is a material uncertainty, we are required to draw attention in our audit report to the corresponding information disclosed in the financial statements, or we express a modified opinion if those disclosures are not appropriate. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions can be grounds for the Bank to not have ability to continue as a going concern.

- We evaluate the overall presentation, structure, and content of the financial statements, including the disclosed information and if the financial statements represent the transactions and underlying events in a manner that they achieve a reasonable presentation.

- We hereby advise those responsible for the governance of the entity, among other matters, of the scope and time at which the audit was performed and the significant findings of the audit, as well as any significant internal control deficiency that we identified in the course of the audit.

- We also provide those in charge of the entity's governance with a statement that we have met the relevant ethical requirements in connection with independence, and communicated all relationships and other matters to them that can be reasonably expected to influence our independence and, if applicable, the corresponding guarantees.

- Among the issues that have been the subject of communication with those responsible for the entity's governance, we determine those that have been most significant in the audit of the financial statements of the current period and which are, therefore, the key audit issues. We describe those issues in our audit report unless legal or regulatory provisions prohibit public disclosure of the matter or, in extremely rare circumstances, we determine that an issue should not be reported in our report because it can reasonably be expected that the adverse consequences thereof would exceed the benefits of public interest.

These financial statements have been translated into English solely for the convenience of readers of this language. In all cases, where there are any disagreements between the English and Spanish versions, the Spanish version shall be considered authoritative and controlling.

CASTILLO MIRANDA Y COMPAÑÍA, S. C.

C.P.A. Carlos Enrique Chárraga Sánchez

Mexico City,
March 1, 2021

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO

Balance sheets
At December 31, 2020 and 2019
(Amounts in millions of Mexican pesos)
(Notes 1 and 2)

Assets	Note	2020	2019
Cash and cash equivalents	6	$ 14,305	$ 19,870
Investments in securities	7		
Trading securities		363,454	361,885
Available-for-sale securities		16,143	14,378
Held-to-maturity securities		11,490	13,983
		391,087	390,246
Debtors on repurchase/ resale agreements (debit balance)	8	-	3,750
Derivatives	9		
Trading purposes		22,021	14,792
Designated as hedges		11,619	7,945
		33,640	22,737
Valuation adjustments on hedges of financial assets	10	(404)	(486)
Current loan portfolio			
Commercial credits			
Business or commercial activity		150,426	135,617
Financial entities		28,443	28,111
Governmental entities		323,149	281,045
Consumer lending		1	1
Housing lending			
Medium class and residential		100	106
Loans granted as an Agent of the Federal Government		516	498
Total current loan portfolio		502,635	445,378
Past-due loan portfolio			
Commercial credits			
Business or commercial activity		2,529	2,416
Consumer lending		10	9
Housing lending			
Medium class and residential		45	48
Total past-due loan portfolio		2,584	2,473
Loan portfolio	11	505,219	447,851
Allowance for loan losses	12	11,835	10,990
Total loan portfolio, net		493,384	436,861
Other accounts receivable, net	13	27,382	16,160
Balance as an Agent of the State and Municipal Support Fund Mandate	13	44	162
Foreclosed assets, net		7	16
Property, furniture and equipment, net	14	524	534
Permanent investments	15	74	74
Deferred income tax	19	246	-
Other assets	16		
Deferred charges, prepaid expenses and intangibles		483	249
Other short and long-term assets		3,297	3,733
		3,780	3,982
Total assets		$ 964,069	$ 893,906

Liabilities	Note	2020	2019
Deposit funding	17		
Time deposit			
Money market		$ 375,078	$ 355,136
Debt securities issued		66,832	62,167
		441,910	417,303
Interbank loans and loans from other agencies	18		
Immediately due and payable		9,288	1,050
Short-term		13,348	14,593
Long-term		16,607	18,613
		39,243	34,256
Creditors under security repurchase agreements	8	370,271	350,513
Derivatives	9		
Trading purposes		13,618	7,687
Designated as hedges		16,563	7,249
		30,181	14,936
Other accounts payables			
Income tax payable	19	31	66
Employee profit sharing payable	2-t	176	215
Creditors for cash collateral received	9	3,202	2,707
Accrued liabilities and other accounts payables	20	5,667	5,487
		9,076	8,475
Taxes and deferred employee profit sharing, net	19	128	516
Deferred credits and advance payments from customers		5,237	5,259
Total liabilities		896,046	831,258
Commitments and contingent liabilities	22		
Stockholders' Equity	23		
Capital contributions			
Capital stock		19,793	17,604
Contributions for future capital increases formalized by its Governing Body		11,743	13,328
Premium on subscription of equity contribution certificates		12,400	7,004
		43,936	37,936
Earned capital			
Capital reserves		5,652	5,217
Retained earnings		21,712	17,794
Gain or loss on valuation of available-for-sale securities	7-b	(2,070)	(900)
Gain or loss on valuation of cash flow hedging instruments		(24)	3
Remeasurements of defined employee benefits		(1,843)	(1,756)
Net income		660	4,354
		24,087	24,712
Total stockholders' equity		68,023	62,648
Total liabilities and stockholders' equity		$ 964,069	$ 893,906

Memorandum Accounts

	Note	2020	2019
Guarantees by endorsement executed		$ 597	$ 1,132
Contingent assets and liabilities	22-c	51,410	37,420
Credit commitments	22-d	39,168	38,354
Assets placed in trust or legal custody	29		
Trusts		480,623	459,214
Management trust of the Banobras retiree pension plan		24,491	22,741
Mandates		9,328	9,316
Financial Agent of the Federal Government		-	325
Assets in custody or administration	30	275,072	325,818
Collateral received by the entity	31	4,387	37,379
Collateral received and sold or furnished as a guarantee by the entity	31	4,387	33,626
Uncollected accrued interest derived from the non-performing loan portfolio		1,402	1,145
Other memorandum accounts	32	806,589	703,209
		$ 4,697,454	$ 1,669,679

Historical capital stock amounts to $16,368 and $14,178 at December 31, 2020 and 2019 respectively.

These balance sheets were prepared in conformity with the accounting criteria for credit institutions issued by the National Banking and Securities Commission, in accordance with the provisions of Articles 99, 101, and 102 of the Credit Institutions Activities Act. Observance of those criteria is general and mandatory, and they were applied on a consistent basis. The transactions carried out by the Institution and reflected up to the dates referred to above were carried out and valued in accordance with sound practices and the pertinent legal and administrative provisions.

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

The domain name of the web page of the world network known as "Internet" is: http://www.gob.mx/banobras/ and the route whereby the financial information, as referred to by Articles 180 to 184 of the General Provisions applicable to Credit Institutions, can be consulted directly is: http://www.gob.mx/banobras/acciones-y-programas/informacion-financiera

The web site of the National Banking and Securities Commission where information can be consulted which, in compliance with the General Provisions Applicable to Credit Institutions, is provided periodically to that Commission is: http://portafolioinfo.cnbv.gob.mx/PUBLICACIONES/Boletines/Paginas/BD.aspx

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

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO

Statements of income
For the years ended December 31, 2020 and 2019
(Amounts in millions of Mexican pesos)
(Notes 1 and 2)

	Note	2020	2019
Interest income		$ 58,390	$ 78,131
Interest expenses		46,408	65,962
Financial margin	26	11,982	12,169
Allowance for loan losses	12	783	244
Financial margin adjusted by credit risks		11,199	11,925
Commissions and fee income		1,017	1,068
Commissions and fee expense		82	56
Financial intermediation	27	1,897	2,810
Other operating income (expenses)	28	(11,345)	(8,213)
Administration and promotion expenses		2,631	2,721
		(11,144)	(7,112)
Operating income		55	4,813
Equity in earnings (losses) of unconsolidated subsidiaries, associates, and joint ventures		-	-
Income before taxes on earnings		55	4,813
Taxes on earnings due	19	-	582
Deferred taxes on earnings (net)	19	(605)	(123)
		(605)	459
Earnings (loss) before discontinued operations		660	4,354
Discontinued operations		-	-
Net income (loss)		$ 660	$ 4,354

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

These statements of income will be approved by the Board of Directors, under the responsibility of the directors who sign them.

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BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO

Statements of changes in stockholders' equity
For the years ended December 31, 2020 and 2019
(Amounts in millions of Mexican pesos)
(Notes 1 and 2)

	Capital contributions			Earned capital						
	Capital stock	Contributions for future capital increases formalized by its Governing Body	Premium on subscription of equity contribution certificates	Capital reserves	Retained earnings (loss)	Gain or loss on valuation of available-for-sale securities	Gain or loss on valuation of cash flow hedging instruments	Remeasurements for defined employee benefits	Net income (loss)	Total stockholders' equity
Balances at December 31, 2018	$ 17,604	$ 7,585	$ 7,004	$ 5,007	$ 15,898	$ (963)	$ 65	$ 747	$ 2,099	$ 55,046
Changes inherent to decisions by stockholders										
Allocation of net income to retained earnings	-	-	-	-	2,099	-	-	-	(2,099)	-
Result from corrections of errors	-	-	-	-	7	-	-	-	-	7
Creation of reserves	-	-	-	210	(210)	-	-	-	-	-
Capitalization of contribution for future capital increases	-	-	-	-	-	-	-	-	-	-
Contributions for capitalization (Note 23-b)	-	5,743	-	-	-	-	-	-	-	5,743
Changes inherent to recognition of comprehensive income										
Comprehensive income										
Net income (loss)	-	-	-	-	-	-	-	-	4,354	4,354
Gain or loss on valuation of available-for-sale securities	-	-	-	-	-	63	-	-	-	63
Gain or loss on valuation of cash flow hedging instruments	-	-	-	-	-	-	(62)	-	-	(62)
Remeasurements for defined employee benefits	-	-	-	-	-	-	-	(2,503)	-	(2,503)
Balances at December 31, 2019	17,604	13,328	7,004	5,217	17,794	(900)	3	(1,756)	4,354	62,648
Changes inherent to decisions by stockholders										
Allocation of net income to retained earnings	-	-	-	-	4,354	-	-	-	(4,354)	-
Result from corrections of errors	-	-	-	-	(1)	-	-	-	-	(1)
Creation of reserves	-	-	-	435	(435)	-	-	-	-	-
Capitalization of contribution for future capital increases	2,189	(7,585)	5,396	-	-	-	-	-	-	-
Contributions for capitalization (Note 23-b)	-	6,000	-	-	-	-	-	-	-	6,000
Changes inherent to recognition of comprehensive income										
Comprehensive income										
Net income (loss)	-	-	-	-	-	-	-	-	660	660
Gain or loss on valuation of available-for-sale securities	-	-	-	-	-	(1,170)	-	-	-	(1,170)
Gain or loss on valuation of cash flow hedging instruments	-	-	-	-	-	-	(27)	-	-	(27)
Remeasurements for defined employee benefits	-	-	-	-	-	-	-	(87)	-	(87)
Balances at December 31, 2020	$ 19,793	$ 11,743	$ 12,400	$ 5,652	$ 21,712	$ (2,070)	$ (24)	$ (1,843)	$ 660	$ 68,023

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

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

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

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO

Statements of cash flows
For the years ended December 31, 2020 and 2019
(Amounts in millions of Mexican pesos)
(Notes 1 and 2)

	2020	2019
Net income	$ 660	$ 4,354
Adjustments on items that do not imply cash flow:		
Depreciation of property, furniture and equipment	10	8
Provisions (including net cost of employee benefits)	864	315
Taxes on earnings due and deferred	(605)	459
Others	(90)	(7)
	179	775
Operating activities		
Change in items related to operating activities		
Investments in securities	(2,010)	(24,542)
Debtors on repurchase agreements	3,750	(3,540)
Derivatives (asset)	(7,229)	(1,830)
Loan portfolio (net)	(56,523)	(14,108)
Foreclosed assets (net)	9	4
Other operating assets (net)	(11,702)	(7,806)
Deposit funding	24,607	31,779
Interbank loans and loans from other agencies	4,987	(5,453)
Creditors under security repurchase agreements	19,759	17,367
Derivatives (liability)	5,931	556
Other operating liabilities	614	(3,583)
Hedging instruments (hedged items related to operating activities)	5,612	6,858
Income tax paid	(269)	(410)
Net cash flows from operating activities	(12,464)	(4,708)
Investing activities		
Proceeds from dispositions of property, furniture and equipment	-	4
Net cash flows from investing activities	-	4
Financing activities		
Contributions for future capital increases	6,000	5,743
Net cash flows from financing activities	6,000	5,743
Net increase or (decrease) in cash and cash equivalents	(5,625)	6,168
Effects of changes in the value of cash and cash equivalents	60	(45)
Cash and cash equivalents at beginning of period	19,870	13,747
Cash and cash equivalents at end of period	$ 14,305	$ 19,870

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

These statements of cash flows will be approved by the Board of Directors, under the responsibility of the directors who subscribe them.

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The accompanying notes are an integral part of these financial Statements.

1. Description of Institution

a. Operations

Banco Nacional de Obras y Servicios Publicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo (the Institution, the Bank or Banobras) operates in conformity with its own set of internal regulations, the Credits Institutions Act, and the general standards and provisions issued by the Ministry of Finance and Public Credit (SHCP), Central Bank of Mexico (Banxico), and the National Banking and Securities Commission (CNBV). The Institution is located at Avenida Javier Barros Sierra 515, Colonia Lomas de Santa Fe, Mexico City, Postal Code 01219.

In accordance with Articles 2 and 3 of its Internal Regulations, Banobras renders public banking and credit service, subject to the objectives and priorities of the National Development Plan, specifically the National Financing Development Plan. It mainly finances or refinances public or private investment projects in infrastructure and public services, as well assist in providing institutional strength to the Federal, State, and Municipal Governments, in order to contribute to the sustainable development of the country.

Moreover, in order to ensure the efficiency and competitiveness of the sectors under its responsibility in undertaking its corporate purpose, Banobras is authorized, among other aspects, to assist in strengthening the federal pact and free municipality within the scope of its competence. The Bank further promotes and finances the providing of infrastructure, public services, and outfit urban settings, as well as to strengthen states and municipalities institutionally, finance and provide technical assistance to Municipalities to have them draw up, manage, and execute their urban development plans. The Institution also provides technical and financial assistance to improve the use of loan proceeds and development of local administrations, finance the development of communication and transportation sectors and foster joint financing and assistance actions with other credit institutions, development funds, trusts, auxiliary credit organizations, and with public and private sectors.

Article 11 of the Internal Regulations of Banobras sets forth that the Federal Government will be liable at all times for borrowing transactions negotiated by the Bank with domestic individuals or legal entities, and with foreign private, government, and intergovernmental institutions.

The main sources of funds of the Institution are the placement of securities on national and international markets, as well as loans from international financial agencies, bilateral agencies, domestic and foreign banks.

b. Authorization

These notes were approved to be issued by the directors who sign them on March 1, 2021. They will subsequently submit to the Board of Directors for their approval, which has the authority to modify these financial statements.

Within its legal inspection and oversight powers, the CNBV can order the modifications or corrections that it deems necessary in its judgment, for the publication of the financial statements of credit institutions.

2. Basis of presentation and accounting policies

- **Basis of presentation**

- Financial statements

The financial statements at December 31, 2020 and 2019 have been prepared to comply with the legal provisions to which Banobras is subject as an independent juridical entity.

- Declaration of Compliance

The financial statements of the Institution are prepared in conformity with the accounting regulatory framework applicable to credit Institutions issued by the CNBV. That framework sets forth that in the absence of a specific accounting framework issued by the CNBV, entities must observe the accounting guidelines of Financial Reporting Standards (MX FRS), issued and adopted by the Consejo Mexicano de Normas de Informacion Financiera, A.C. (CINIF - Spanish acronym), and other supplementary provisions stipulated in MX FRS A-8 "Supplemental applicability", which arise from application, by contemplating specific standards for recognition, valuation, presentation and disclosure.

- **Accounting policies**

The most significant accounting policies and practices applied by Banobras management in the preparation of its financial statements are described below.

a. Functional and reporting currency

The provisions of the CNBV relative to issuing financial statements set forth that the amounts must be presented in millions of Mexican pesos, which correspond to its functional and reporting currency. Consequently, the accounting records of the Institution shown items in some captions of the financial statements with balances lower than the unit (one million of Mexican pesos), which is why they are not presented in those captions.

b. Use of judgments and estimates

The preparation of the financial statements requires that management make judgments, estimates, and assumptions that affect the recognized amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the amounts of revenues, costs, and expenses recorded during the year. Real results can differ from these estimates and assumptions, and those effects are incorporated at the time at which they occur.

Judgments

The judgments used in the application of accounting policies, which have the most significant effect on the amounts recognized in the financial statements, are included in the following notes:

- Note 7. Investments in securities. With regard to the determination of impairment of investments classified as held-to-maturity and the factors to evaluate in the absence of observable information.
- Note 9. Derivatives and hedge transactions. With regard to the judgments used in mathematical models for the determination on their fair value, such as volatility of longer-term derivatives and discount rates, early redemption rates, and nonperformance assumptions of payment of securities.

Assumptions and uncertainty in estimates

Sources of uncertainty when applying the estimates made that have a significant risk of giving rise to an adjustment to the book amounts of assets and liabilities in the following year are included in the following notes:

- Note 12. Allowance for loan losses. With regard to the methodologies used for measuring additional risks considered to be outside of the standard portfolio rating methodologies.
- Note 21. Employee benefits: With regard to the key hypotheses used in the actuarial calculation of defined benefits obligation.

c. Recognition of the impact of inflation on the financial information

During fiscal 2020 and 2019, Banobras operated in a non-inflationary environment in the terms of MX FRS B-10 "Impact of inflation", insofar as accumulated inflation of the three prior annual fiscal years did not exceed 26%, as shown below:

		Inflation	
December 31,	UDI	Of the year	Depreciation
2020	6.605597	3.23%	11.31%
2019	6.399018	2.77%	15.03%
2018	6.226631	4.92%	15.71%

Pursuant to the foregoing, the Bank stopped recognizing the impact of inflation on its financial information, beginning January 1, 2008. Consequently, only nonmonetary items included in the balance sheets arising from periods prior to December 31, 2007 recognize the impact of inflation from the date of acquisition, contribution or initial recognition up to that date. Such items include property, furniture and equipment, foreclosed assets, intangibles, capital stock, capital reserves, and retained earnings.

d. Recording trades

Trading with securities, repurchase agreements (repos), derivatives and loans received, among other things, for its own account or for account of third parties are recorded on the date on which they are agreed upon, irrespective of the date of their settlement.

e. Valuation of financial instruments

For the determination of fair value of positions in financial instruments (derivative and non-derivative), both its own and of third parties, the Institution uses prices, rates, and other market information provided thereto by a price vendor authorized by the CNBV.

f. Foreign currency transactions

- Foreign exchange trading

Foreign exchange trading operations are recorded at contracted prices. When their settlement is agreed upon within a maximum term of two banking days subsequent to the execution date. These trades are recorded as restricted Cash and cash equivalents in reference to purchases, and an outflow of Cash and cash equivalents with regard to sales, against the corresponding clearing account. Gains or losses generated in this type of trading are recognized in the statement of income as part of the caption intermediation income.

- **Foreign currency balances**

Trades carried out are recorded in the currency in which they are agreed upon. For purposes of presentation of the financial information, foreign currency asset and liability balances are valued in Mexican pesos by using the exchange rate published by Banxico on the banking day subsequent to the date of the financial statements. The effects of variations in exchange rates in these items affect income for the year, such as exchange gains or losses in the Financial margin if they arise from items related to the trades and in Other income (expenses) of the trades in any other case.

g. Cash and cash equivalents

Cash and cash equivalents are represented mainly by bank deposits, which are recorded at their nominal value, which includes the addition uncollected accrued interest at the date of the balance sheet.

Financing granted on the interbank market referred to as "Call Money", whose term is less than or equal to three business days, are recorded in the caption of cash and cash equivalents. Interest earned by these trades is recorded in income as accrued, and forms part of the Financial Margin.

h. Investments in securities

They consist of debt instruments and stock or share certificates, and their classification is determined in accordance with management's intent at the time they are acquired. Each category has specific recording, valuation, and presentation rules in the financial statements, as described below:

- **Trading securities**

Trading securities are those securities acquired with the intent of selling them, obtaining gains derived from their returns and/or their price fluctuations. They are initially recognized at their fair value, including, if applicable, the discount or surcharge, and the costs of the trade are recorded in income. Interest accrued on debt securities is determined in conformity with the effective interest method, and its effect is recognized in the statement of income in the caption of interest earned. They are valued at fair value, and their effect is recorded in the statement of income in the caption of intermediation income.

- **Available-for-sale securities**

These are debt securities, whose intent is intended to obtain gains derived from price differences arising from short-term trading operations, as well as on those on which there is neither any intent nor capacity to hold them to their maturity; therefore, they are acquired with an intent other than that of trading securities or held-to-maturity securities.

They are initially recognized at their fair value, including, if applicable, the discount or surcharge, and the costs of the trade. Interests accrued is determined in conformity with the effective interest method, and its effect is recognized in the statement of income in the caption of interest earned. They are valued at fair value, and their effect is recognized in other income items in the caption of stockholders' equity. The gain or loss, which has been previously recognized in stockholders' equity at the time of the sale, is reversed to recognize it in income. The gain or loss on valuation attributable to hedged risks on securities designated as hedged items in fair value hedges is recognized in the statement of income, in the caption of Intermediation income.

When a decrease in the value of a security available-for-sale has been recognized directly in other comprehensive income items in stockholders' equity, and there are objective indicators that the security is impaired, the gain or loss on valuation recognized therein is reclassified to income for the year. The amount to be reclassified is determined as follows: the difference between: (i) the value at which the security was initially recognized, net of any payment of principal and amortization; and (ii) the present fair value of the security, less any impairment loss on the security indicated above previously recognized in income for the year. At December 31, 2020, and 2019 there are no impairment indicators in investments in available-for-sale securities.

- **Held-to-maturity securities**

These are debt securities, whose payments are fixed or determinable with a fixed maturity with respect to which the Institution has both the intent and the capacity to hold up to their maturity. They are initially recognized at their fair value, including, if applicable, the discount or surcharge, and the costs of the trade.

It is valued at its amortized cost, which implies that amortization of the premium or discount and trade costs form part of accrued interest. Its effect is recognized in the statement of income in the caption of interest income.

Management regularly evaluates if there is objective evidence that the value of investments held in this classification shows any impairment indicator. In that case, the amount of the impairment loss is determined as the difference between the carrying value of the security and the present value of estimated cash flows, discounted at the original effective interest rate of the security, which is recognized in income for the year. At December 31, 2020 and 2019, there are no impairment indicators in investments in held-to-maturity securities.

In accordance with accounting criteria issued by the CNBV, a debt security cannot be classified as held-to-maturity if the Institution sold securities of this category or reclassified securities of this category to the available-for-sale category during the current fiscal year or during the two prior years, unless the amount sold or reclassified during the last 12 months does not represent more than 15% of the total amount of investments held to maturity at the date of the trade, irrespective of the unclassified securities, previously sold securities, or securities reclassified that have or do not have similar characteristics.

The Bank is considered to have maintained both the intent and capacity to hold securities to their maturity when sales or reclassifications have been made within 90 calendar days prior to their maturity or, if applicable, from the date of the option to repurchase the security by the issuer, or they occur after the entity has accrued or, if applicable, collected more than 85% of its original value in nominal terms, or they are attributable to an isolated event that is out of control of the entity that is not recurrent, and that it could not have been reasonably foreseen by the entity. In this latter case, sales must be attributable to any of the following circumstances:

a) Significant impairment in the credit rating of the issuer.
b) A change in the tax laws that affect the tax treatment of the yields of the instrument and, therefore, its value.
c) A business combination or a restructuring that implies the sale of a business segment, including the held-to-maturity financial instrument.
d) The modification of regulations to which an entity can be subject and affect the asset to stockholders' equity ratio.

At December 31, 2020 and 2019, Banobras did not carry out sales of securities held to maturity.

- **Reclassifications of securities between categories**

In accordance with the accounting criteria of the CNBV, the Institution can make reclassifications from the category of held-to-maturity securities to available-for-sale securities, provided that there is neither the intent nor the ability to hold them to maturity. If applicable, the gain or loss on valuation is recognized in other items of comprehensive income, and it corresponds to the difference arising from comparing the carrying value with the fair value of the instrument.

The Institution must have express authorization issued by the CNBV to make reclassifications from the category of securities held-to-maturity or from securities available-for-sale. At December 31, 2020 and 2019, the Institution did not make reclassifications of securities between categories.

- **Recording dividends**

Stock dividends received are recorded by simultaneously allocating the number of shares of the corresponding issuer and the average unit acquisition cost of the securities, which is equivalent to recording a stock dividend at a zero value. Cash dividends paid by issuers are recorded in income for the year in the caption of interest income.

i. Repos trading

In repurchase transactions, the Institution acts as a buyer (borrower) or seller and recognizes an account receivable or account payable, respectively, at the agreed upon value. It is subsequently valued at its amortized cost during the validity of the trade, whereby interest earned and paid is recognized as accrued, in the caption of interest income and interest expenses, respectively.

Collateral received by the Institution as a buyer is recognized in memorandum accounts in the item of Collateral received by the Institution, which is valued at its fair value.

When the Institution furnishes the collateral that it received as a guarantee (in repurchase transactions) when acting as a buyer, an account payable is recognized which is valued at amortized cost. In this case, the spread between the value of the account payable and the amount of cash received is recognized in income in the caption of Intermediation income. In addition, the securities furnished as a guarantee are recognized in memorandum accounts in the caption of Collateral received and sold or furnished as a guarantee by the Institution, which are valued at their fair value.

The collateral furnished by the Institution acting as a seller is reclassified as restricted in the category of investments in securities in that in which they are recognized.

- **Compensation of financial assets and liabilities**

In the event that the Institution should assign the collateral that it received as security while acting as a buyer, the account payable recognized for this item is compensated by the account receivable recorded initially. The net debit or credit balance is presented in the captions of Debtors on repurchase/resale agreements (debit balance) or Collateral sold or furnished as a guarantee (credit balance), as applicable.

j. Derivative financial instruments and hedge transactions

Banobras recognizes all derivative financial instruments in the balance sheet at their fair value, irrespective of whether they are designated as "trading" or as "hedges". Cash flows received or delivered for adjusting the instrument to fair value at the beginning of the trade, not associated to premiums on options, are considered as part of the fair value of the financial instrument.

The Institution uses derivative financial instruments designated as hedges as a tool that allows for designing and executive strategies to mitigate or eliminate various financial risks to which it is exposed, implement asset and liability management strategies and reduce their cost of funding. Transactions for trading purposes correspond mainly to those which the Institution carries out with its clients or with other brokers to meet the hedging needs of financial risks thereof, by generating positions which, in turn, the Institution hedges through mirror operations on the market.

At December 31, 2020 and 2019, total trading with derivative financial instruments contracted by Banobras have been carried out on over-the-counter markets. The fair value of these instruments is determined based on the valuation methodologies approved by the competent advisory boards of the Institution, which are consistent with valuation techniques commonly accepted and used on the market.

Costs associated to trading are recognized in income as incurred therein.

Notional amounts of contracts with derivative financial instruments are recognized in memorandum accounts in the caption of Other margin accounts.

The accounting treatment of derivative financial instrument contracts used by Banobras is discussed below:

- **Derivative financial instruments designated as hedges**

Derivative financial instruments designated as hedges are recognized at their fair value, as assets or liabilities, depending on the rights and/or obligations that they contain. Hedge accounting provisions are observed when recorded with regard to the recognition of the gain or loss on the hedging instrument and hedged item, which, in turn, considers if the hedge is defined as fair value or cash flow.

- **Fair value hedges**

Financial derivative instruments designated as hedges represent a hedge against exposure to changes in fair value of recognized assets or liabilities or unrecognized firm commitments, or of a portion identified of those assets, liabilities or unrecognized firm commitments that is attributable to a particular risk that can affect the gain or loss for the period. With regard to the Institution, fair value hedges correspond to interest rate and exchange rate risks of financial assets and liabilities.

Firm commitments correspond to mandatory agreements for the exchange of a determined amount of proceeds at a specific price and on an established date or dates.

Changes in the fair value of hedging instruments are recognized in income in the caption of intermediation income, together with the gain or loss on valuation at fair value of item attributable to the hedged risks.

Adjustments on the fair value of hedged items associated with interest rate risks of a portion of a portfolio comprised of financial assets and liabilities are presented in the balance sheet in the captions of Valuation adjustment on financial assets designated as hedges or financial liabilities designated as hedges, as appropriate.

- **Cash flow hedges**

Derivative financial instruments designated as cash flow hedges represent a hedge of the exposure to the change in cash flows of a forecasted transaction that: (i) is attributable to a particular risk associated with a recognized asset or liability (such as the total or some of the future interest payments applicable to a credit or debt instrument at a variable interest rate), or with a highly likely event; and that (ii) it can affect income of the period.

The effective portion of the fair value of the hedging instrument is recognized in stockholders' equity, the Gain or Loss on valuation of cash flow hedge instruments, as an item belonging to comprehensive income. The ineffective part is recognized immediately in income, in the caption of Intermediation INCOME. The effects of valuation in stockholders' equity are reclassified to the statement of income to the degree in which the hedged position affects the foregoing.

- **Hedge effectiveness**

Hedge instrument effectiveness is evaluated monthly. In the event that management should determine that a financial derivative instrument is no longer highly effective as a hedge, it stops applying the hedging accounting scheme retrospectively with regard to those derivatives, which are reclassified to a trading position if maintained. The significant practices, policies, and procedures implemented by the Institution with regard to comprehensive risk management are indicated in Note 33.

- **Forward contracts (forwards)**

Forward contracts are those contracts whereby an obligation to buy or sell a financial asset or an underlying asset on a future date is established in an amount, quality, and prices pre-established in the contract. The party that binds itself to buy assumes a long position, and the party that binds itself to sell assumes a short position in these trades.

An asset portion and a liability portion are recorded for forwards at the initially contracted price multiplied by the notional amount. They are valued at fair value, which corresponds to the present value of the cash flow to be received and delivered, as appropriate, projected in accordance with applicable implicit future rates and discounted at the prevailing interest rates on the market on the date of valuation. The effect of valuation is recognized in the statement of income in the item of Intermediation income. The net balance (position) of the buy and sell trade is presented in the balance sheet, either in the asset or in the liability, in the caption of Derivatives held for trading or Derivatives designated as hedges, in accordance with their debit or credit nature, respectively.

As of December 31, 2020, Banobras hold positions in forward contracts designated as fair value hedges and positions for trading purposes, whereas it only held positions in forward contracts designated as fair value hedges as of December 31, 2019.

- **Swaps**

Swaps are recorded at the agreed upon price at the inception of the contract. They are valued at fair value, which corresponds to the present value of the expected cash flows to be received and delivered, as appropriate, projected in accordance with applicable implicit future rates and discounted at the prevailing interest rates on the market on the date of valuation. Notional amounts are recognized in the balance sheet when their exchange is agreed upon as assets and/or liabilities, as appropriate. Otherwise, they are only recognized in memorandum accounts.

Changes in fair value of trading swaps are recognized in the statement of income, in the caption Intermediation income. The effects of valuation of swaps designated as hedges are recognized in the statement of income or in stockholders' equity, if the hedging strategy is fair value of cash flows, respectively.

Interest earned on swaps designated as hedges are recognized in the Financial margin, and interest earned on trading swaps is recognized in the caption of Intermediation income. Exchange gains or losses on derivative financial instruments form part of the Financial margin.

Management evaluates if there is objective evidence that a financial asset arising from the rights set forth in the derivatives experiences credit risk impairment (counterparty). In that case, the carrying value is written down to its estimated recovery value and the amount of the loss is recognized in income for the year in the caption of Intermediation income.

For purposes of presentation in the financial statements, the net balance (position) of flows expected to be received or delivered by contract is presented in the balance sheet, either as an asset or as a liability, in accordance with its debit or credit nature, respectively, in the items of trading Derivatives or Derivatives designated as hedges, as appropriate.

At December 31, 2020 and 2019, Banobras holds positions in trading swaps and swaps designated as fair value and cash flow hedges.

- **Collateral furnished and received**

To assure payment of the considerations of this type of trades carried out on over-the-counter-markets, collateral is generally received or delivered in cash as a guarantee, which is recognized in the caption of other receivables with regard to collateral furnished, whereas collateral received is recognized in the caption of other payables.

Collateral received or delivered other than cash, that is, in securities is recognized depending on the right existing thereon. Accordingly, securities received as collateral are recognized in the caption of Memorandum accounts in Collateral received by the entity. Securities delivered as collateral are reclassified and presented as restricted.

- **Embedded derivatives**

Embedded derivatives are those components of a contract that are explicitly not intended to give rise to a derivative financial instrument in itself, but the embedded risks generated by those components differ in their economic characteristics and risks of those of that contract (host contract) and, therefore, they are conducive to behavior and characteristics similar to those presented in a common derivative financial instrument.

When the economic characteristics and risks of the embedded derivative are not closely related to the characteristics and risks of the host contract, and the host contract is not valued at its fair value and affect the results of the Institution, the embedded derivative is segregated for valuation purposes and it is treated as a derivative for accounting purposes.

At December 31, 2020 and 2019, based on the analysis performed by the Institution's Management, embedded derivatives were not identified that must be segregated.

The significant practices, policies, and procedures implemented by the Institution with regard to comprehensive risk management are indicated in Note 33.

k. Clearing accounts

Clearing accounts represent the balance of repurchase trading and trading of securities or currencies that are not settled on the same day on which those trades are agreed upon. Foreign currency trading in which the immediate settlement is not agreed same-day value date is recorded in clearing accounts in the amount receivable or payable in Mexican pesos.

Debit and credit clearing accounts are presented in the caption of Other accounts receivables and payables for settlement of securities traded, respectively, and they are offset when there is a contractual right to offset the amounts recognized and the intent to settle the net amount or realize the asset and write off the liability simultaneously.

l. Loan portfolio

Accounting records

- **Loan portfolio records**

Lines of credit granted to clients are recorded in memorandum accounts in the caption of loan commitments on the date on which they are authorized by the Internal Credit Committee, the Executive Credit Committee or the Board of Directors, in accordance with the loan manual of the Bank. Drawdowns carried out by borrowers on the authorized lines of credit are recorded as a loan portfolio as of the date on which the proceeds are distributed or the corresponding consumption is carried out.

The amount recorded in the loan portfolio represents the outstanding balance of the amounts effectively delivered to the borrowers, plus unearned accrued interest at the date of the balance sheet, in conformity with the payment scheme corresponding to each loan.

Capitalized lease transactions are recorded as direct financing, by considering the total rents agreed upon in the respective agreements as loan portfolio. The interest earned on these transactions is the equivalent to the difference between the value of the rents and the cost of the leased assets, which is recognized as a deferred credit and recorded in income as accrued.

Value added tax assessed on capitalized lease transactions are recognized on the date of each disbursement of the line of credit granted. It is presented in the caption of Other receivables, and it is recovered on the due dates of the rents agreed upon contractually, in order to be paid to the tax authorities.

The option to buy at a reduced price of capitalized lease agreements is recognized as income on the date on which it is collected or as amortizable income during the remaining period of the agreement, at the time at which the lessee is bound to adopt that option.

Lease agreements are classified as capitalized if the agreement transfers the ownership of the leased asset to the lessee upon termination of the lease agreement. The agreement contains an option to purchase at a reduced price. The lease term is substantially equal to the remaining useful life of the leased asset, or the present value of the minimum payments is substantially equal to the market value of the leased asset, net of any benefit or scrap value.

Advances furnished by Banobras for the acquisition or installation of assets that will form part of lease agreements already committed with clients are recognized as part of the loan portfolio. The Institution accrues interest on those advances that are recognized in the Statement of Income in the financial margin as accrued.

Interest applicable to current credit operations is recognized and applied to income as accrued, irrespective they become due and payable. Interest accrual is suspended at the time at which loans are reclassified to the nonperforming portfolio. An allowance is created in an amount equivalent to the total unearned ordinary interest applicable to the total loans classified as nonperforming at the time such a loan is reclassified to the nonperforming portfolio.

Commissions collected on loans granted are recognized in the income on a deferred basis, based on the duration of the financing granted. Commissions collected on restructurings or renewals are likewise recognized in income on a deferred basis, and they are amortized during the new loan term.

Commissions collected on lines of credit opened that have not been drawn down are recognized in income on a deferred basis as interest earned in a twelve-month period. If the line is exercised, the amortization period is modified to adjust it to the drawdown period carried out. The remaining balance of cancellations before the twelve-month period is recognized in income for the year in the caption Commissions and fees.

Incremental costs incurred in loans granted are amortized in income, based on the periods in which commissions collected on assets generated are amortized.

The corresponding amounts of guarantees are recognized in memorandum accounts in the caption of Contingent assets and liabilities. Commissions collected on these operations are recognized in income at the time at which they are generated.

Loans to employees and former employees are presented in the captions of Other accounts receivables and Loan Portfolio, respectively. Interest on loans to employees is presented in the caption of Other operating income (expenses) of the statement of income, whereas the financial burden of loans to former employees is presented in the Financial margin.

- **Reclassification to past-due loan portfolio**

When amortizations of loans or interest are not received on their due date, in accordance with the payment scheme, the total of the principal and interest is reclassified to the past-due loan portfolio under the following assumptions:

- When it is known that the borrower is declared in commercial bankruptcy, in conformity with the Mexican Bankruptcy Act.

  Without prejudice to the provisions in this number, loans on which payment continues to be received in terms of the provisions of subsection VIII of Article 43 of the Mexican Bankruptcy Act, as well as loans granted in reliance on Article 75 in connection with subsections II and III of Article 224 of the Law referred to above, will be reclassification to the nonperforming portfolio when they incur in the assumptions provided for in the next number.

- When amortizations have not been totally settled in the terms originally contracted, considering the following:

  - If debts consist of loans with a single payment on principal and interest at maturity and present 30 or more calendar days in arrears;

  - If debts refer to loans with a single payment on principal at maturity and periodic payments on interest that present 90 or more calendar days in arrears of the respective interest payment or 30 or more calendar days in arrears of the principal;

  - If debts consist of loans with periodic partial payments on principal and interest, including housing loans, and present 90 or more calendar days in arrears;

  - If debts consist of revolving loans and present two monthly billing periods in arrears or in the event that the billing period is other than monthly, that which corresponds to 60 or more calendar days in arrears.

Nonperforming loans are reclassified to the performing loan portfolio at the time at which the borrower totally settles the outstanding balances.

The Institution periodically evaluates if a nonperforming loan must remain on the balance sheet or written off, as long as it has been provided for at 100%. The unpaid balance of the loan is written off against Allowance for loan losses previously created for each loan.

- Impaired portfolio

The Institution performs a monthly analysis of the economic environment in which its borrowers operate to identify the impaired portfolio on a timely basis, in terms of Accounting Criterion B-6, Loan portfolio.

Those commercial loans, consumer and housing credit with a "D" and "E" risk are identified as impaired portfolio and, finally, the loans that are in the assumptions indicated by the CNBV to be reclassified to the nonperforming portfolio.

- Loan restructurings and renewals

Loan restructurings consist of expanding guarantees that support the drawdowns made by borrowers, as well as modifications to the original terms contracted of the loans that refer to the payment scheme, interest rate or currency, granting a waiting period with regard to meeting payment obligations or extending the term of the loan.

Loan renewals are transactions in which the balance of the loan is settled, in whole or in part, through an increase in the original amount of the loan, or with financing from another loan contracted with the same Institution, in which the same debtor or another person who pose common risks due to their patrimonial or business ties.

Nonperforming that are restructured or renewed will remain in the past-due loan portfolio, as long as there is not any evidence of sustained payment, which consists of compliance by the borrower without any delay in the total amount due and payable of capital and interest, of three consecutive amortizations of the loan payment scheme as a minimum or a lump-sum payment with regard to loans with amortizations that cover periods exceeding 60 calendar days.

Three consecutive amortizations of the original payment scheme are considered in restructurings in which the periodicity of payment is modified to shorter periods than those originally agreed upon, for purposes of observing the sustained payment.

Loans with a single payment on principal and/or interest at their due date that are restructured during the loan term or renewed at any time are considered as nonperforming portfolio as there is not any evidence of sustained payments. Performing loans other than those already indicated that are restructured or renewed without having elapsed at least 80% of the original loan term are considered performing only when the borrower has covered the accrued interest and principal of the original amount of the restructured or renewed loan, which should have been covered at the renewal or restructuring date. Otherwise, they are considered nonperforming as long as there is no evidence of sustained payment.

Likewise, if those loans are restructured or renewed during the 20% of the end of the original loan term, they are considered performing only when the borrower has covered the accrued interest and principal of the original amount of the restructured or renewed loan, which should have been covered at the renewal or restructuring date and which accounts for 60% of the original amount of the loan. Otherwise, they are considered nonperforming as long as there is no evidence of sustained payment.

Revolving loans that are restructured or renewed at any time are considered performing only when the borrower has covered the accrued interest, the loan does not have past-due billing periods, and there are elements that justify the creditworthiness of the debtor.

The foregoing does not apply to those restructurings which, at the date of the modification of the original terms of the loan, present compliance of payment of capital and interest, and the guarantees are only extended or improved or the rate is improved in benefit of the borrower, or the currency is modified and the rate corresponding to the new currency is applied or the due date is changed, and this does not imply exceeding or modifying the periodicity thereof.

- **Foreign currency hedge financing mechanism**

Mandate of the Supporting Fund to States and Municipalities (FOAEM, for its acronym in Spanish)

The FOAEM is a mandate whose participants are the Federal Government as the principal and Banobras as the agent, which is intended to hedge the foreign exchange risk. This scheme enables loans granted, supported by foreign proceeds, to be drawn down and paid by borrowers in Mexican pesos and/or in Investment Units (UDIS), thereby assuring payment in foreign currency.

The journal entry of the operations of the FOAEM is recognized at notional value to balance the short position in foreign currency, arising from loans from international financial institutions and the long position in UDIS, arising from the loans with its counterparties in Mexican pesos. For the presentation in financial statements, the net value of both positions valued in local currencies is zero.

Proceeds delivered to the mandate arising from recovered loans are controlled through a credit account known as "Credit balance as Agent of the Mandate of the Supporting Fund to States and Municipalities", provided that the hedging costs and effects of fluctuation of UDIS are recorded in a borrowing account known as "Balance payable as agent of the Mandate of the Supporting Fund to States and Municipalities". For their presentation in the financial statements, the net of both is presented in the caption referred to as balance as an Agent of the Support to States and Municipalities.

The foreign currency component contained in foreign currency denominated loan agreements as a hedge under the scheme described above is closely connected thereto; therefore, it is not required to be separated and valued as an embedded derivative.

m. Allowance for loan losses

The allowance for loan losses is determined based on technical and general operating provisions applicable to credit institutions, issued by the CNBV with regard to rating loan portfolios, in conformity with the provisions of Article 76 of the Credit Institutions Act.

The methodology for determining preventive estimates for credit risks is described in Note 33 a) roman numeral vi).

The increases or decreases in the allowance for loan losses arising from the rating process are recorded by allocating the Financial margin adjusted by credit risks. In the event that the decreases in that estimate should exceed the amount created in the period in question by type of portfolio (commercial, consumer or housing), the spread is reversed against income for the year in the period in which those changes occur, which are allocated to the same item or caption that generated it, that is, that of the allowance for loan losses.

The Institution creates a 0.5% reserve for financing granted to the Federal Government or with its express guarantee, in accordance with the provisions of Article 112, Subsection VI, roman numerals from i to viii of the Single Banking Circular (CUB for its acronym in Spanish).

- **Additional allowance for loan losses recognized by the CNBV**

The additional allowance for loan losses recognized by the CNBV is that which is created to cover risks that are not provided for in the different portfolio rating methodologies. Prior to their creation, the following must be reported to the CNBV: i) origin of the estimates; ii) methodology for their determination; iii) amount of estimates to be created; and iv) estimated time that they will be necessary.

n. Permanent investments

This caption includes shares in auxiliary banking entities and related services, as well as certificates of capital contribution of development banking institutions, which are recorded at their acquisition cost, and restated up to December 2007.

ñ. Property, furniture and equipment

The book value of these assets is presented in the financial statements, which are initially recorded at acquisition cost, by reducing accumulated depreciation. Depreciation is calculated through the straight-line method on the book value of assets based on annual rates that reflect the useful life of assets. Maintenance and repair expenses are recognized in income when incurred.

o. Foreclosed assets

Foreclosed assets are recorded by comparing the value of the asset or accrued or past-due amortizations that gave rise to the foreclosure, net of estimates, with regard to the value of the foreclosed asset. If the net asset is higher than the value of the foreclosed asset, the difference is recognized in income for the year in Other operating expenses, whereas the value of the foreclosed asset is adjusted to the net value of the asset if it is lower.

The institution creates provisions on the book value of these assets to recognize the potential losses of value due to time elapsed. That provision is created based on percentages established by the CNBV by type of asset (private or real property) and based on the time elapsed, beginning as of the date of the foreclosure or dation in payment.

p. Other assets

The Institution recognizes the assets allocated to create an irrevocable trust fund at their fair value to cover the obligations arising from the labor rights of its employees at retirement. These assets are increased by the contributions made to the fund and the expected yields on the plan assets, determined based on an actuarial calculation performed by independent appraisers, and they are reduced by retirements or divestitures therefrom (Note 2s). The balance of assets is presented, net of the corresponding labor obligations in the balance sheet. When labor obligations are lower than the asset recognized, the resulting balance is presented in the caption of Other assets. Otherwise, the balance is presented in the caption of Other accounts payables.

Advance payments to service providers are also recognized in this caption, which are amortized on a straight-line pursuant to the term of the contract. Debt issue expenses are amortized on a straight-line throughout the term of the issue. Prepayments to supervisory agencies are amortized in the period, and tax recoverable balances are recognized as well.

q. Impairment of long-lived assets

The Institution annually analyzes possible impairment indicators of long-lived, tangible, and intangible assets that could give rise to the recognition of a write-down in the value of those assets. At December 31, 2020 and 2019, there have not been any impairment indicators.

r. Deposit funding

Financing obtained on the interbank market referred to as "Call Money", whose term is less than or equal to three business days, are presented in the caption of Interbank loans and from other agencies, on the line-item of immediately due and payable. Interest payable on these trades is recorded in income as accrued, and forms part of the Financial margin.

Liabilities for funds raised by borrowing through time deposit and negotiable instruments, as well as interbank loans and loans from other agencies are recorded based on the contractual value of the obligation. Interest payable is recognized in income in the financial margin as accrued, based on the agreed upon interest rate.

Securities included in deposit funding, which are part of direct bank deposits, are classified and recorded in accordance with the following:

- Securities placed at nominal value. These securities are recorded based on the contractual value of the obligation, and interest is accrued directly in income;

- Securities that are placed at a price other than nominal value (with a premium or at a discount). They are recorded based on the contractual value of the obligation, by recognizing a deferred charge or credit on the difference between the nominal value of the security and the amount of cash received thereon, which is amortized in income during the term of the security.

- Securities placed at a discount. The issue is recorded based on the amount of cash received for them and the gradual discount is recognized in income as it accrues against the liability to reach its nominal value at maturity.

At December 31, 2020 and 2019, the time deposit is carried out mainly by placing promissory notes with yields payable at maturity placed at a discount, as well as certified banking deposits (CEDES-Spanish acronym) and securities exchange certificates (CEBURES-Spanish acronym) placed at their nominal value.

Commissions paid for loans received by the Institution or from placing bank debt are recorded in income for the year in the caption of Commissions and fee on the date on which they are generated.

Both issue expenses and the discount or premium of the debt placement are recorded as a deferred charge or credit, as appropriate. They are recognized in income for the year as expenses or interest earned as accrued, as appropriate, taking into consideration the term of the securities that gave rise thereto.

The premium or discount on placement is presented in the liability that gave rise thereto, whereas the deferred charge on issue expenses is presented in the caption of Other assets.

s. Employee benefits

- Direct short-term benefits

Direct short-term employee benefits are recognized in income for the period in which services rendered are accrued. A liability is recognized on the amount expected to be paid if the Institution has a legal or assumed obligation, as the result of prior services rendered and the obligation can be estimated reasonably.

- Direct long-term benefits

The net obligation of the Institution in connection with direct long-term benefits except for deferred PTU (Note 19) expected to be paid by the Institution after twelve months from the date of the most recent statement of financial position presented is the amount of future benefits that employees have gained in exchange for their service in the current fiscal year and in prior years. This benefit is discounted to determine its fair value.

- Termination benefits

A liability is recognized for termination benefits and a cost or expense when the Institution does not have a different realistic alternative than that of dealing with the payments, and it cannot withdraw the offer of those benefits, or when it meets the conditions for recognizing the costs of restructuring, whichever occurs first. If they are not expected to be liquidated within the 12 months subsequent to fiscal year end, then they are discounted to determine their fair value.

- Defined benefit plan

The Institution has established a defined pension plan that covers retirement pensions, seniority premiums, and legal severance payments to which employees are entitled, in accordance with the Federal Labor Act, as well as the obligations relative to postretirement benefits, such as medical services, among other things. The plan is closed and it was in effect up to September 1, 2009.

The calculation of obligations for defined benefit plans is performed annually by actuaries, by using the projected unit credit method. The labor cost of current service, which represents the cost of the period of employee benefits for having completed one more year of years of service based on the benefit plans, is recognized in management and promotional expenses. The Institution determines net interest expense (income) on the net liability (asset) for defined benefits of the period, by multiplying the discount rate used to measure the defined benefit obligation (DBO) for the net liability (asset) defined at the beginning of the annual period reported, taking into account the changes in the net liability (asset) for defined benefits during the period, as a consequence of the estimates of contributions and payments of benefits.

The plan amendments that affect the cost of prior services are immediately recognized in income in the year in which the modification occurs, without any possibility of deferment in subsequent years. Moreover, the effects of events of liquidation or reduction of obligations in the period, which significantly reduce the cost of future services and/or significantly reduce the population subject to the benefits, respectively, are recognized in income for the year.

Plan assets are managed through an irrevocable trust. The Institution makes the contributions determined in that actuarial calculation and recognizes the fair value provided therein.

The remeasurements generated beginning January 1, 2016 (formerly actuarial gains and losses) arising from differences between projected actuarial hypotheses and the real amounts at the end of the period are recognized in the period in which they are incurred as part of comprehensive income in stockholders' equity. They are subsequently recycled to income for the period, based on the expected life of the retired group.

- **Defined contribution plan**

As part of the review performed of general working conditions performed in September 2009, the Institution implemented a defined contribution plan with mandatory individual accounts for newly hired workers and optional for those who joined the Institution prior to that date, and that were in the Defined pension plan. Employees who decided to change to this plan cannot go back to the Defined benefits plan.

With regard to pensions in this plan, Banobras makes biweekly contributions, and recognizes their effect in income, in the caption of Administrative and promotional expenses. Post-retirement benefit liabilities arising from seniority premiums to which employees are entitled in accordance with the Federal Labor Act, other post-employment benefits such as medical service and other benefits arising from termination due to causes other than restructuring are recognized based on the actuarial calculation performed by independent expert appraisers. The net cost for the period is recognized by allocating it in income in the caption of administrative and promotional expenses.

Plan assets are managed through an irrevocable trust. The Institution makes the contributions determined in that actuarial calculation and recognizes the fair value provided therein.

- **Initial accrued effect at January 1, 2016 for update of MX FRS D-3 "Employee benefits".**

Banobras, as a Development Bank, will start to recognize the balance of plan amendments nor yet recognized for accounting purposes, and the accrued balance of gains or losses on the plan amendment not yet recognized no later than fiscal 2021, by recognizing 20% beginning with its initial application, and an additional 20% in each subsequent year until reaching 100% in a maximum period of 5 years.

The initial amount with amounts at January 1, 2016 of the accrued balance of losses on the defined benefit plan not yet recognized was $7,029, whereas the balance of plan amendments not yet recognized amounted to $75. Moreover, the initial amount with amounts at January 1, 2016 of the accrued balance of losses on the mixed contribution plan not yet recognized was $5, whereas the balance of plan amendments not yet recognized amounted to $4.

In addition, and since MX FRS D-3 "Employee benefits" sets forth that remeasurements recognized in Other Comprehensive Income (OCI) must subsequently be recycled to income for the year based on the expected life of the retired group at the beginning of each period, that is, by forming part of the net cost for the period and to avoid a distortion in stockholders' equity of the Institution, an amount equivalent to recycling determined in the year is being recognized therein and in the liability, which mainly includes the recycling determined with the change of standard. As of December 31, 2020 and 2019, the Defined benefit plan amounted to $470, whereas it amounted to $2 for the cost of the defined contribution plan.

The foregoing is not an advanced recognition of the changes due to reissue, indicated in the resolution referred to above that modifies the CUB.

- **Net cost of the period**

As of December 31, 2020 and 2019, the net cost for the period for the Defined benefit plan amounted to $774 and $251, respectively, whereas that cost for the Defined contribution plan amounted to $49 and $28, respectively.

t. Employee Profit Sharing (PTU, for its acronym in Spanish)

PTU caused and deferred is presented in the statement of income in the caption of administrative and promotional expenses.

Deferred PTU is determined based on the asset and liability method. Under this method, a 10% rate is applied to all differences arising between book and tax values of assets and liabilities.

The Institution determines the PTU base in accordance with the procedure set forth in Article 9 of the Income Tax Regulations (LISR) in effect as of December 31, 2020. In fiscal 2020 and 2019, the Institution provided for PTU in the amount of $176 and $215, respectively.

As of December 31, 2020 and 2019, Banobras recorded a deferred PTU liability amounting to $128 and $157, respectively (Note 19b).

u. Income tax

Income tax is comprised of the tax assessed and deferred for the period. The tax assessed is attributable to income for the period, whereas deferred tax can create an effect payable by or in benefit of the Institution attributable to the temporary differences between book and tax values of assets and liabilities, losses, and tax liabilities.

Income Tax assessed is determined in accordance with currently enacted tax legislation. This tax represents a liability of a term less than one year. When advances made exceed the tax determined for the year, the excess generated is a receivable.

Deferred tax is determined under the asset and liability method, by applying the income tax rate (ISR).

The deferred tax rate is that which is set forth in tax provisions at the date of the financial statements or, if applicable, that tax rate that will be in effect at the date on which temporary differences are reversed, tax loss carryforwards are realized or tax liabilities are applied against tax assessed for the period.

v. Assets and liabilities in investment units (UDIS)

Assets and liabilities denominated in UDIS are presented in the balance sheet at the Mexican pesos value of the UDI at the date of the financial statements. The value of the UDI at December 31, 2020 and 2019 amounts to $6.605597 and $6.399018, respectively. The value of the UDI at the issue date of these financial statements (March 1, 2021) is $6.704009.

w. Memorandum accounts

The Institution records financial and non-financial information complementary to the items presented in the balance sheet in memorandum accounts, mainly for the opening of lines of credit executed with borrowers, guarantees, securities in custody and management valued at their fair value, trust assets (when Banobras acts as a trustee), and assets and liability positions of financial instruments generated by repurchase agreements (repos). Notional amounts of derivative financial instruments are also recognized in memorandum accounts, which are maintained contracted and budgetary control items.

x. Financial Agent of the Federal Government

The transactions carried out by the Institution for account and order of the Federal Government under the concept of mandate are recorded in memorandum accounts. Brokerage fees generated by managing these transactions are recorded in income as generated.

Transactions other than those carried out under the concept of mandate in which the Institution assumes the rights and obligations arising from loan portfolio agreements and loans with agencies are recorded in accordance with the type of transaction, that is, as a loan portfolio or as a loan from foreign banks and other agencies, as the case may be. These transactions are presented in the captions of Loan portfolio and Interbank loans and from other agencies, respectively.

y. Commission income and expense

Commissions and fees collected and paid are those generated by credit operations other than those that give rise thereto. They are generated for rendering services, among other things, such as management, transfer, custody or fund management, trustee activities, and for furnishing guarantees by endorsement. They are recognized in income at the time when they are accrued.

z. Intermediation income

It arises mainly from the gain or loss at fair value of trading securities and financial operations arising from trading and hedging, as well as the gain or loss from buying and selling securities, currencies, and derivative financial instruments.

aa. Comprehensive income

The comprehensive income of the Institution is represented by net income for the year, plus those items whose effect is reflected directly in stockholders' equity. They are not contributions, decreases, and capital contributions.

ab. Segment information

The Institution has identified the operating segments of its different activities, by considering each one as a component in its internal structure, with risks and particular yield opportunities. These components are reviewed regularly to allocate appropriate monetary proceeds for their operation and performance evaluation (Note 25).

3. Special Accounting Criteria

a) Special accounting criteria (CCE)

The CNBV issued general Special Accounting Criteria (CCE) through Official letters P285/2020 and P293/2020, dated March 26 and April 15, 2020, respectively.

The foregoing is concerned with the programs and support that lending institutions implement to benefit their clients by virtue of the "Agreement whereby the General Health Council recognizes the epidemic of disease caused by the SARS-CoV2 virus (COVID-19) in Mexico, as a serious disease meriting priority attention, as well as the preparation and response activities in dealing with that pandemic", published in the Official Daily Gazette on March 23, 2020, and the impact that it is generating in various activities of the economy, among other aspects.

In this regard, the Board of Directors of Banobras authorized the specific criteria for implementing a temporary support program through Agreement 038/2020 in April, whereby clients, both the Public Sector and Private Sector, would be given the benefit of deferring their payments of capital and/or interest in whole or in part including the corresponding accessories up to 4 months, with the possibility of extending it for 2 additional months.

The support program would conclude no later than 120 calendar days subsequent to February 28, 2020. However, given the conditions of the contingency, the CNBV decided to extend the validity of the CCE up to July 31, 2020.

The CCE basically set forth particular rules in the observation of periods for not considering credits renewed or restructured as non-performing portfolio, provided that the credits were classified in performing portfolio in effect as of February 28, 2020, and that this formal procedure had been carried out in the period authorized by the CNBV.

Based on the matter discussed above, as of December 31, 2020, 15 credits are reported in the scheme described above; 5 correspond to Credits with a business or commercial activity and 10 to credits of government entities. The captions approved correspond to the deferred payments on capital and interest.

As of December 31, 2020, the effects of applying the CCE are as follows:

- **Credit card**

Item	Type of loan	Deferred amount	
Subscribed	Business or commercial activity		-
Interest	Business or commercial activity	$	314
	Governmental entities		484
		$	798

Considering the scenario in which the CCE had not been applied, the credits would be in the nonperforming portfolio, by taking the non-payment of the amounts were deferred as non-performance; therefore, there would be the following past-due balances:

Type of loan	Balance due	
Business or commercial activity	$	9,535
Governmental entities		29,721
	$	39,256

Considering the scenario without the CCE for the credits incorporated into the program, a lower amount of $331 would have been recognized in income amounting to $2,477, with regard to what was presented in the statement of income for interest income.

Type of loan	With CCE		Without CCE	
Business or commercial activity	$	861	$	713
Governmental entities		1,947		1,764
	$	2,808	$	2,477

- **Allowance for loan losses**

At fiscal 2020 year end, the complementary estimate for loan losses that would have been recorded in both the balance sheet and the statement of income would amount to $12,618, had the CCE not been applied.

Allowance for loan losses	Amount	
For the borrowers to which the CCE were applied	$	859
For the borrowers with CCE had the criteria discussed not been applied		13,477
Complementary preventive estimate in the event that the CCE had not been applied		12,618
For the loan portfolio without including those borrowers to whom the CCE had been applied		10,976
For the total loan portfolio (financial statement as of December 31, 2020)		11,835

- **Capitalization ratio:**

The information relative to the calculation of the capitalization ratio[1] considering the effect of the special accounting criteria, as well as that which would have been obtained had they not been applied is as follows:

[1] In the process of being validated by Banco de México.

Item	With CCE	Without CCE
Net capital	$ 69,520	$ 56,275
Weighted assets subject to total risks	406,404	445,073
Capitalization index (ICAP)	17.11%	12.64%

b) Banobras' strategy in dealing with the COVID contingency

As a consequence of the sanitary contingency in 2020, the national economy experienced a significant contraction in liquidity levels and credit supply. This situation significantly increased the credit supply from Banobras, which was reflected in a significant increase in its loan portfolio. All the known effects of this growth of the portfolio are reflected in its financial information.

The Institution maintained the dynamics in granting credit for the development of infrastructure with a high social impact to allow for recovering and generating jobs, which promoted the participation of commercial banking and other financial agents. Resources were channeled toward projects in which commercial banking did not participate due to a higher perception of risk.

The following actions, among other things, which contributed to reactivating the economy stand out:

i. It promoted financial inclusion by granting credits to states and municipalities, which enabled them to develop priority works.

ii. It implemented temporary programs for the borrowers who have been affected by the current sanitary contingency;

iii. It supported strategic projects with financing, considered in the Agreements for the development of infrastructure of the Government of Mexico with the private sector; and

iv. It channeled financing to carry out works that benefited the most vulnerable population and generated well-being.

As a result of the foregoing, Banobras reported credit granted in the amount of $141,472, the highest in the last 8 years, highlighted by financing mainly to the Federal Government, States and Municipalities and investment projects, mainly to highway sections.

On the other hand, the Bank maintained the recovery of its loan portfolio, which amounted to $95,972 in fiscal 2020, mainly from the Federal Government, State-Owned Productive Companies and Decentralized Agencies.

At 2020 year end, the Bank reported a non-performing loan index (non-performing portfolio/total portfolio) of 0.51%, lower than 0.55% observed in 2019.

Pursuant to the foregoing, the financial soundness of Banobras is highlighted by having a 17.11% ICAP (for its acronym in Spanish) (Net capital/Total risk assets), which indicates that the Bank is in a position of facing unexpected losses and/or deterioration of the loan portfolio.

In a context of economic contraction, the Institution obtained a net income amounting to $660, once payment had been made to the Federal Government for its sovereign guarantee on the liabilities of Banobras in the amount of $11,500.

Pursuant to the foregoing, the Bank did not have significant qualitative and/or quantitative impacts arising from the sanitary contingency. The Institution had the necessary budgetary resources to deal with operating and administrative expenses; therefore, it maintained its personnel staff that benefited working at home. Moreover, the institution did not experience impairment of financial assets as of the date of the financial statements.

c) COVID Accounting Facilities

The CNBV issued temporary accounting regulatory facilities (the COVID Accounting Facilities), pursuant to Official letters P417/2020 and P418/2020 dated September 24, 2020. These facilities may be applicable to credits granted as of March 31, 2020, whose compliance in original terms has been affected by the epidemic referred to above as of September 24, 2020. Basically, they set out particular rules in credit renewals or restructuring. As of December 31, 2020, the Institution has not incorporated credits into this scheme.

d) Institutional Restructuring Programs (PIR - for its acronym in Spanish)

The CNBV issued temporary regulatory facilities for lending institutions that implement Institutional Restructuring Programs (PIR - for its acronym in Spanish), pursuant to official letter P477/2020 dated November 9, 2020 to offer better credit conditions to its clients. These programs may be applied simultaneously or independently in connection with restructurings or renewals in reliance on COVID Accounting Facilities. The PIRs may be applied to balances drawn down as of April 15, 2020 of the credits that meet the total conditions set out in the above Official Letter. As of December 31, 2020, the Institution has not incorporated credits into this scheme.

e) Special Accounting Criteria in connection with credits whose source of payment is located in zones declared as a natural disaster

The CNBV issued temporary special accounting criteria applicable to consumer, housing, and commercial credits for clients that have their domicile or the credits whose source of payment is located in affected zones, declared by the Ministry of the Interior or by the Ministry of Security and Citizen Protection as a natural disaster zone, pursuant to official letter P481/2020 dated November 25, 2020. The support will basically consist of deferring partial or total payments on capital and/or interest for three months, six months in the case of group microcredits or up to 18 months in the case of credits allocated to agricultural and rural sectors, with the consequent benefit that the credits will continue to be reported as performing with credit rating companies (credit bureaus). As of December 31, 2020, the Institution has not incorporated credits into this scheme.

4. Related parties

Asset and liability operations

At December 31, 2020 and 2019, loans in which the Institution acts as a Financial Agent of the Federal Government, including the related liabilities stated in Mexican pesos, are as follows:

	2020			2019		
Financial agent:	Asset transaction	Liability transaction	Long (short) position	Asset transaction	Liability transaction	Long (short) position
Euros	$ 516	$ 515	$ 1	$ 498	$ 497	$ 1

The resulting long positions are covered by the Federal Government.

The balances of related party transactions, if applicable, are disclosed in the subsequent notes, relative to the items of the balance sheet and the statement of income.

5. Foreign currency balances

At December 31, 2020 and 2019, the financial statements contain foreign currency denominated rights and obligations, as follows:

	Foreign currencies (millions)		Equivalence in Mexican pesos	
Type of currency	2020	2019	2020	2019
Assets:				
US dollars	2,713	2,892	$ 54,016	$ 54,555
Japanese yen	54,304	51,900	10,473	9,010
Euros	24	44	579	934
			65,068	64,499
Liabilities:				
US dollars	2,642	2,795	52,605	52,734
Japanese yen	49,228	50,167	9,494	8,709
Euros	22	34	541	727
			62,640	62,170
Long position			$ 2,428	$ 2,329

At December 31, 2020 and 2019, the exchange rates used to value foreign currency denominated assets and liabilities in Mexican pesos are:

	Amounts in Mexican pesos	
	2020	2019
US dollars	$ 19.9087	$ 18.8642
Japanese yen	0.19286	0.17361
Euros	24.35630	21.17506

At March 1, 2021, issue date of the financial statements, the U.S. dollar exchange rate is $20,6123, the Japanese yen is $0.1932 Mexican pesos, and the Euro is $24.8244 Mexican pesos.

In conformity with Circular 3/2012 issued by Banxico, at the end of each business day, the Institution may maintain an exchange risk position, both overall and for each currency, which does not exceed the equivalent of 15% of its basic capital. At December 31, 2020 and 2019, the Institution complies with this limit.

6. Cash and cash equivalents

At December 31, 2020 and 2019, this caption is summarized as follows:

	2020	2019
Cash, bills, and coins	$ 1	$ 1
Deposits in domestic and foreign banks (a)	610	696
Deposit in Banxico (b)	11,407	12,335
Banxico Auctions (c)	-	934
Call Money (d)	2,287	160
Other restricted cash and cash equivalents (e)	-	5,744
	$ 14,305	$ 19,870

a. Deposits in domestic and foreign banks

As at December 31, 2020 and 2019, the balances of these deposits are summarized as shown below:

		2020		2019	
Currency	Features	Foreign currency (thousands)	Mexican pesos	Foreign currency (thousands)	Local Currency
Mexican pesos	Checking accounts	-	$ 5	-	$ 5
US dollars	Checking accounts	27,153	540	24,377	460
Japanese yen	Checking accounts	14,427	3	14,464	3
Euros	Checking accounts	2,550	62	10,786	228
			$ 610		$ 696

b. Deposit in Banxico

Banxico sets forth the obligation for credit institutions to create a monetary regulation deposit, which is determined based on the Deposit funding in Mexican pesos of each Institution. This deposit lacks a term and accrues interest payable every 27, 28, 29 or 30 days at the Target Rate published by Banxico.

At December 31, 2020 and 2019, the balance of the monetary regulation deposit maintained by Banobras in Banxico amounts to $11,407 and $12,335, respectively. The target rate at those rates was 4.26% and 7.27%, respectively.

c. Banxico Auctions

As of December 31, 2020, Auction Operations have not been scheduled with Banxico, whereas the balance amounts to $934 for an operation in a 2 days period at a 7.25% rate as of December 31, 2019.

d. Call Money

As of December 31, 2020 and 2019, Call Money transactions executed amount to $2,287 and $160, respectively. The operation was executed at a 4.25% rate in a 4 days period in 2020, whereas it was at a 7.25% rate and in a 2 days period in 2019.

e. Other restricted availabilities

Operations are not reported in this caption as of December 31, 2020, whereas it consists of a deposit from the Federal Treasury as of December 31, 2019, with the following characteristics:

	Mexican pesos				
Currency	Capital	Interests	Total	Rate	Term
M.N.	$ 5,743	1	$ 5,744	7.48%	Indefinite

At December 31, 2020 and 2019, interest earned on cash and equivalents amounts to $551 and $1,037, respectively (Note 26).

7. Investments in securities

At December 31, 2020 and 2019, investments in securities are summarized as follows:

a. Trading securities

	2020				2019			
	Cost of acquisition	Interest	Gain (loss) on valuation	Fair value	Cost of acquisition	Interest	Gain (loss) on valuation	Fair value
Unrestricted securities								
CETES	$ 7	-	-	$ 7	$ 23	-	-	$ 23
BONDES	126	-	-	126	3,608	$ 11	$ 2	3,621
Securities exchange certificate	4	-	-	4	4,154	6	-	4,160
Mutual funds	1,264	-	-	1,264	496	-	-	496
	1,401	-	-	1,401	8,281	17	2	8,300
Restricted securities								
CETES	4,318	$ 104	$ 29	4,451	2,092	5	-	2,097
BONDES	251,469	336	(66)	251,739	231,937	708	342	232,987
Securities exchange certificate	14,745	29	51	14,825	13,094	38	38	13,170
Securities exchange certificates (GF)	3,665	29	(49)	3,645	5,839	78	(86)	5,831
Certificates of deposit	705	2	-	707	708	3	-	711
BPAS	38,148	529	208	38,885	65,118	1,505	(63)	66,560
BPAGT	31,577	150	65	31,792	28,696	357	62	29,115
BPAG	15,983	19	7	16,009	3,105	9	-	3,114
	360,610	1,198	245	362,053	350,589	2,703	293	353,585
	$ 362,011	$ 1,198	$ 245	$ 363,454	$ 358,870	$ 2,720	$ 295	$ 361,885

Restricted securities as of December 31, 2020 correspond to collateral granted in repurchase agreements; while, for 2019: $350,657 correspond to collateral granted in repurchase agreements and $2,928 to collateral granted in derivative operations.

b. Available-for-sale securities

	2020				2019			
Unrestricted securities	Acquisition cost	Interest	Valuation	Fair value	Acquisition cost	Interest	Valuation	Fair value
Federal Government Bonds (USD)	$ 1,988	$ 36	$ 352	$ 2,376	$ 1,884	$ 33	$ 183	$ 2,100
EUROBONDS (USD)	1,638	16	92	1,746	1,549	16	59	1,624
Securities exchange certificates (GF)	5,655	150	798	6,603	5,663	189	214	6,066
Private securities exchange certificates	829	2	172	1,003	1,407	13	45	1,465
State and Municipal Securities Exchange Certificate	2,401	15	367	2,783	2,361	14	115	2,490
State and Municipal Securities Exchange Certificate	54	1	6	61	400	9	29	438
Foreign issued debt securities	8	-	1	9	185	1	9	195
	12,573	220	1,788	14,581	$ 13,449	$ 275	$ 654	$ 14,378
Restricted titles								
Securities exchange certificates Private	779	12	94	885	-	-	-	-
Bank stock certificates	593	8	76	677	-	-	-	-
	1,372	20	170	1,562	-	-	-	-
	$ 13,945	$ 240	$ 1,958	$ 16,143	$ 13,449	$ 275	$ 654	$ 14,378

As of December 31, 2020 and 2019, the securities available for sale are subject to hedging with derivative financial instruments. The effects of the valuation are presented as follows:

	2020	2019
Valuation of available-for-sale securities	$ 1,958	$ 654
Gain or loss on valuation attributable to the hedged risk (1)	(4,024)	(1,550)
Others	(4)	(4)
Gain or loss on valuation of available-for-sale securities (Earned capital)	$ (2,070)	$ (900)

(1) Recognized in the caption of Intermediation income.

c. Held-to-maturity securities

At December 31, 2020 and 2019, held-to-maturity securities are summarized as follows:

Unrestricted securities	Due date	2020	2019
Stock certificates	February 2021 and March 2020	$ 1,018	$ 7,486
Private Stock Certificates	April 2021 and May 2020	436	2,934
Certificates of Deposit	February 2021 and February 2020	604	1,608
Federal Government Securities Exchange Certificates	May 2022 and November 2020	2,005	1,808
		4,063	13,836
Restricted securities			
Securities exchange certificates	April 2021	5,330	-
Securities exchange certificates Private	April 2021	1,948	-
Federal Government Bonds	November 2021	149	147
		7,427	147
		$ 11,490	$ 13,983

At December 31, 2020 and 2019, uncollected accrued interest on held-to-maturity securities amounts to $28 and $53, respectively.

At December 31, 2020 and 2019, interest earned on investments in securities amounts to $22,806 and $30,848, respectively (Note 26).

8. Repos trading

a. Summary

At December 31, 2020 and 2019, current repurchase agreements repos are summarized below:

	2020		2019	
Debtors under security repurchase agreements	Receivables and collateral under security repurchase agreements	Payables under security repurchase agreements	Receivables and collateral under security repurchase agreements	Payables under security repurchase agreements
CETES	$ 600	$ 4,422	$ 300	$ 2,097
Fixed rate bonds	-	-	10,011	-
BPAS	-	38,676	899	66,622
BPAG28	-	16,002	2,454	3,114
BPAG91	600	31,727	11,847	29,053
CEBIC	500	-	500	-
Securities exchange certificates (GF)	-	3,873	-	6,064
Securities exchange certificate	-	20,435	-	13,132
Deposit certificates	-	707	-	712
Private stock deposits		2,436	-	-
Certificates stock deposits	-	186	-	-
BONDES (Federal Government Development Bonds)	2,445	251,807	11,090	229,719
UDIBONOS	250	-	250	-
	4,395	$ 370,271	37,351	$ 350,513
Less:				
Collateral securities sold or pledged (1)				
Fixed rate bonds	-		10,011	
CEBIC	500		500	
CETES	600		-	
BPAG91	600		11,000	
BONDES	2,445		8,640	
BPAS	-		899	
BPAG28	-		2,301	
UDIBONOS	250		250	
	4,395		33,601	
Debtors under security repurchase agreements	$ -		$ 3,750	

(1) At December 31, 2020 and 2019, the effect of valuation of collateral sold or pledged amounts to $(8), and $30, respectively.

Collateral received by the Institution, as well as pledged collateral or delivered by the Institution are presented in memorandum accounts (Note 31).

b. Interest on repurchase agreements repos

At December 31, 2020 and 2019, accrued interest earned in repurchase transactions repos amounts to \$1,482 and \$4,831, respectively, whereas interest payable in repurchase transactions repos amounts to \$21,353 and \$32,420, respectively (Note 26).

c. Terms and instruments

The average term of repurchase transactions repos at December 31, 2020 and 2019 ranges between 2 and 52 days, and the main instruments are as follows:

- Federal Treasury Certificate (CETES, for its acronym in Spanish)
- Savings Protection Bonds (BPAS, for its acronym in Spanish)
- Federal Government Development Bonds (BONDES, for its acronym in Spanish)
- Securities Exchange Certificates (CEBURES, for its acronym in Spanish)
- Segregable Highway Indemnification Securities Exchange Certificates (CEBICS, for its acronym in Spanish)
- Savings Protection Bonds with a monthly interest payment and additional benchmark interest rate (BPAG, for its acronym in Spanish)
- Savings Protection Bonds with a Quarterly interest payment and benchmark interest rate (BPAGT)
- Certificates of deposit (CEDES, for its acronym in Spanish)
- Federal Government Development Bonds denominated in Investment Units (UDIBONOS, for its acronym in Spanish)
- Pivate Securities Exchange Certificates
- Foreign Issuance Debt Securities

9. Derivatives and hedge trading

At December 31, 2020 and 2019, current derivative financial instruments trading is shown below:

	2020				
	Amount		Presentation		
	Assets	Liabilities	Assets	Liabilities	Net
For trading purposes					
Trading swaps:					
U.S. dollar/Peso	\$ 1,564	\$ 1,001	\$ 563	-	\$ 563
Peso/U.S. dollar	5,635	7,806	-	\$ 2,171	(2,171)
U.S. dollar/Peso	8,748	8,149	4,314	3,715	599
UDIS/Peso	2,455	1,205	1,250	-	1,250
Peso/UDIS	1,204	2,452	-	1,248	(1,248)
YEN/Peso	10,470	1,511	8,959	-	8,959
Interest rates	28,394	27,943	6,935	6,484	451
Total trading securities	58,470	50,067	22,021	13,618	8,403
For hedging purposes:					
Fair value hedge swaps:					
UDIS/Peso	15,879	9,898	5,981	-	5,981
Peso/UDIS	10,961	15,164	-	4,203	(4,203)
U.S. dollar/Peso	2,074	1,509	565	-	565
Peso/U.S. dollar	4,356	6,596	-	2,240	(2,240)
Interest rates	67,434	72,840	4,705	10,111	(5,406)
	100,704	106,007	11,251	16,554	(5,303)
Cash flow hedge swaps:					
Peso/Peso					
U.S. dollar/Peso	1,308	949	368	9	359
	1,308	949	368	9	359
Total for hedging purposes	102,012	106,956	11,619	16,563	(4,944)
	\$ 160,482	\$ 157,023	\$ 33,640	\$ 30,181	\$ 3,459

	2019				
	Amount		Presentation		
	Assets	Liabilities	Assets	Liabilities	Net
For trading purposes					
Trading swaps:					
U.S. dollar/Peso	$ 1,572	$ 1,052	$ 520	-	$ 520
Peso/U.S. dollar	5,379	7,477	-	$ 2,098	(2,098)
U.S. dollar/Peso	10,610	10,055	2,124	1,569	555
UDIS/Peso	2,591	1,370	1,221	-	1,221
Peso/UDIS	1,370	2,588	-	1,218	(1,218)
YEN/Peso	9,008	1,269	7,739	-	7,739
Interest rates	29,921	29,535	3,188	2,802	386
Total trading securities	60,451	53,346	14,792	7,687	7,105
For hedging purposes:					
Fair value hedge swaps:					
UDIS/Peso	13,420	9,137	4,310	27	4,283
Peso/UDIS	11,134	13,687	-	2,553	(2,553)
U.S. dollar/Peso	2,924	2,184	740	-	740
Peso/U.S. dollar	4,283	5,048	3	768	(765)
Interest rates	68,294	69,612	2,528	3,846	(1,318)
	100,055	99,668	7,581	7,194	387
Cash flow hedge swaps:					
Peso/Peso	366	355	11	-	11
U.S. dollar/Peso	1,311	963	353	5	348
	1,677	1,318	364	5	359
Forward contracts designated as fair value hedges					
Euro/Peso	179	229	-	50	(50)
	179	229	-	50	(50)
Total derivatives designated as hedges	101,911	101,215	7,945	7,249	696
	$ 162,362	$ 154,561	$ 22,737	$ 14,936	$ 7,801

The valuation effect of derivative financial trading, as well as hedged items are recognized in the caption of Intermediation income. At December 31, 2020 and 2019, this effect represented an unrealized gain amounting to $1,329 and $1,436, respectively (Note 27). At December 31, 2020 and 2019, hedges maintain efficiency between 80% and 125% required by the accounting criteria of the CNBV.

At December 31, 2020 and 2019, the notional amount, accrued interest, and valuation effect of the position of derivative financial instruments for trading purposes and designated as hedges are summarized as follows:

	2020			
	Notional amount	Interest	Valuation	Fair value
Swaps for trading purposes:				
Swaps U.S. dollar/Peso				
Asset-U.S. dollar	$ 1,277	-	$ 287	$ 1,564
Liability – Peso	828	-	173	1,001
	449	-	114	563
Swaps Peso/U.S. dollar				
Asset – Peso	5,260	$ 42	333	5,635
Liability - U.S. dollar	7,374	19	413	7,806
	(2,114)	23	(80)	(2,171)
Swaps U.S. dollar/U.S. dollar				
Asset – U.S. dollar	1	92	8,655	8,748
Liability - U.S. dollar	1	83	8,065	8,149
	-	9	590	599
Swaps UDIS/Peso				
Assets – UDIS	2,166	11	278	2,455
Liability – Peso	1,205	-	-	1,205
	961	11	278	1,250
Swaps Peso/UDIS				
Asset – Peso	1,204	-	-	1,204
Liability - UDIS	2,166	11	275	2,452
	(962)	(11)	(275)	(1,248)
Swaps YEN/Peso **(1)**				
Assets – YEN	7,136	2	3,332	10,470
Liability – Peso	384	1	1,126	1,511
	6,752	1	2,206	8,959
Interest rate swaps				
Assets	572	948	26,874	28,394
Liabilities	572	930	26,441	27,943
	-	18	433	451
Total swaps for trading purposes	5,086	51	3,266	8,403
Net position for trading purposes	5,086	51	3,266	8,403
Fair value hedge:				
Swaps UDIS/Peso				
Assets – UDIS	12,670	1,819	1,390	15,879
Liability – Peso	9,966	17	(85)	9,898
	2,704	1,802	1,475	5,981
Swaps Peso/UDIS				
Asset – Peso	10,273	15	673	10,961
Liability - UDIS	12,434	92	2,638	15,164
	(2,161)	(77)	(1,965)	(4,203)
Swaps U.S. dollar/Peso				
Asset – U.S. dollar	2,009	2	63	2,074
Liability – Peso	1,586	2	(79)	1,509
	423	-	142	565
Swaps Peso/U.S. dollar				
Asset – Peso	3,534	7	815	4,356
Liability - U.S. dollar	3,627	54	2,915	6,596
	(93)	(47)	(2,100)	(2,240)
Interest rate swap				
Asset – Peso	34,167	1,461	31,806	67,434
Liability – Peso	34,166	1,231	37,443	72,840
	1	230	(5,637)	(5,406)
Total fair value hedge	874	1,908	(8,085)	(5,303)
Cash flow hedge:				
Interest rate swaps				
Asset – U.S. dollar	1,289	1	18	1,308
Liability - Peso	892	15	42	949
	397	(14)	(24)	359
Net position designated as a hedge	$ 1,271	$ 1,894	$ (8,109)	$ (4,944)

	2019			
	Notional amount	Interest	Valuation	Fair value
Swaps for trading purposes:				
Swaps U.S. dollar/Peso				
Asset-U.S. dollar	$ 1,350	-	$ 222	$ 1,572
Liability – Peso	924	-	128	1,052
	426	-	94	520
Swaps Peso/U.S. dollar				
Asset – Peso	5,356	$ 42	(19)	5,379
Liability - U.S. dollar	7,127	53	297	7,477
	(1,771)	(11)	(316)	(2,098)
Swaps U.S. dollar/U.S. dollar				
Asset – U.S. dollar	8	144	10,458	10,610
Liability - U.S. dollar	8	134	9,913	10,055
	-	10	545	555
Swaps UDIS/Peso				
Assets – UDIS	2,386	12	193	2,591
Liability – Peso	1,370	-	-	1,370
	1,016	12	193	1,221
Swaps Peso/UDIS				
Asset – Peso	1,370	-	-	1,370
Liability - UDIS	2,386	12	190	2,588
	(1,016)	(12)	(190)	(1,218)
Swaps YEN/Peso **(1)**				
Assets – YEN	6,424	1	2,583	9,008
Liability – Peso	384	2	883	1,269
	6,040	(1)	1,700	7,739
Interest rate swaps				
Assets	214	933	28,774	29,921
Liabilities	214	916	28,405	29,535
	-	17	369	386
Total swaps for trading purposes	4,695	15	2,395	7,105
Net position for trading purposes	4,695	15	2,395	7,105
Fair value hedge:				
Swaps UDIS/Peso				
Assets – UDIS	11,593	1,630	197	13,420
Liability – Peso	9,216	25	(104)	9,137
	2,377	1,605	301	4,283
Swaps Peso/UDIS				
Asset – Peso	10,472	23	639	11,134
Liability - UDIS	12,309	91	1,287	13,687
	(1,837)	(68)	(648)	(2,553)
Swaps U.S. dollar/Peso				
Asset – U.S. dollar	2,960	8	(44)	2,924
Liability – Peso	2,285	4	(105)	2,184
	675	4	61	740
Swaps Peso/U.S. dollar				
Asset – Peso	3,530	11	742	4,283
Liability - Peso U.S. dollar	3,433	51	1,564	5,048
	97	(40)	(822)	(765)
Interest rate swap				
Asset – Peso	37,370	1,416	29,508	68,294
Liability – Peso	37,370	867	31,375	69,612
	-	549	(1,867)	(1,318)
Total fair value hedge	1,312	2,050	(2,975)	387
Cash flow hedge:				
Interest rate swaps				
Asset - Peso	335	7	24	366
Liability - Peso	332	-	23	355
	3	7	1	11
Interest rate swaps				
Asset – U.S. dollar	1,292	2	17	1,311
Liability - Peso	934	15	14	963
	358	(13)	3	348
Total cash flow hedges	361	(6)	4	359
Forward contracts (fair value hedge):				
Asset – Euro	178	-	1	179
Liability – Peso	236	-	(7)	229
	(58)	-	8	(50)
Net position designated as a hedge	$ 1,615	$ 2,044	$ (2,963)	$ 696

AT December 31, 2020 and 2019, there are cash backed guarantees in connection with derivative financial trading in the amount of $20,384 and $5,381, respectively (Note 13). Moreover, cash backed guarantees were received in the amount of $3,202 and $2,707, respectively, which are reported in the caption of collateral payable received in cash.

As of December 31, 2020, the Institution neither delivered nor received guarantees on debt instruments, whereas as of December 31, 2019, there are guarantees delivered on debt instruments amounting to $2,928 reported in the caption of investments in securities (Note 7) and guarantees received amounting to $29, which were reported in the caption of Assets in custody or administration (Note 30).

Derivative financial instruments trading carried out by the Bank are conducive to liquidity, market, credit, and legal risks. Internal control policies and procedures for managing risks inherent to derivative financial instruments trading are described in Note 33.

(1) **Interest rate swap and Japanese Yen for Mexican pesos swaps**

At December 31, 2020, this extinguishing amortizing cross currency swap operation reports a net valuation amounting to $8,959 ($7,739 in December 2019), in conformity with the internal valuation model authorized by the Comprehensive Risk Management Committee of Banobras.

This financial derivative instrument includes a clause of early extinction of rights and obligations linked to the possibility of nonperformance with regard to the external debt of the Federal Government, whose valuation at December 31, 2020 and 2019 meant an unrealized loss amounting to $1,147 and $903, respectively with a 0.00290586642752325 % and 0.00250246040667972% probability of nonperformance.

Beginning June 2018, it forms part of the operations for trading purposes portfolio, upon revoking the allocation of the hedge of the Japanese Yen bond issue, which mean the recognition of a deferred credit (valuation of the hedged item) that will be amortized in income in the remaining term of the issue of the bonds referred to above (December, 2033).

10. Valuation adjustment on hedges of financial assets

The Institution maintains loan portfolios that form part of the fair value hedge ratio for interest rate risks. At December 31, 2020 and 2019, the effect of valuation (credit balance) attributable to the hedged risk of the loan portfolio amounts to $404 and $486, respectively. At those same dates, the positions in derivatives that hedge those portfolios have an aggregate notional amounting to $32,568 and $32,615, respectively.

11. Loan portfolio

a. Summary of the performing and past-due loan portfolio by type of loan

At December 31, 2020 and 2019, the loan portfolio is summarized as follows:

	2020			
	Principal	Interest	Valuation (1)	Total
Current loan portfolio				
Commercial credits				
Business or commercial activity	$ 142,559	$ 1,403	$ 6,464	$ 150,426
Financial entities	28,135	308	-	28,443
Governmental entities	318,510	1,462	3,177	323,149
Consumer credit	1	-	-	1
Housing credit				
Medium class and residential	100	-	-	100
Loans granted as an Agent of the Federal Government	514	2	-	516
Total current loan portfolio	489,819	3,175	9,641	502,635
Past-due loan portfolio				
Commercial credits				
Business or commercial activity	2,505	24	-	2,529
Consumer credit	9	1	-	10
Housing credit				
Medium class and residential	44	1	-	45
Total past-due loan portfolio	2,558	26	-	2,584
Total loan portfolio	$ 492,377	$ 3,201	$ 9,641	$ 505,219

	2019			
	Principal	Interest	Valuation (1)	Total
Current loan portfolio				
Commercial credits				
Business or commercial activity	$ 131,829	$ 1,279	$ 2,509	$ 135,617
Financial entities	27,704	407	-	28,111
Governmental entities	280,498	760	(213)	281,045
Consumer credit	1	-	-	1
Housing credit				
Medium class and residential	106	-	-	106
Loans granted as an Agent of the Federal Government	497	1	-	498
Total current loan portfolio	440,635	2,447	2,296	445,378
Past-due loan portfolio				
Commercial credits				
Business or commercial activity	2,393	23	-	2,416
Consumer credit	9		-	9
Housing credit				
Medium class and residential	47	1	-	48
Total past-due loan portfolio	2,449	24	-	2,473
Total loan portfolio	$ 443,084	$ 2,471	$ 2,296	$ 447,851

(1) This amount corresponds to the valuation of risks hedged in individual credits that are related to fair value hedges.

For the years ended 2020 and 2019, interest and commissions earned by the Institution for loan portfolio amounted to $32,699 and $41,164, respectively (Note 26).

b. Summary of the portfolio by currency

At December 31, 2020 and 2019, the analysis of the loan portfolio by currency is as follows:

	2020			
	Mexican pesos	Foreign currency translated into Mexican pesos	UDIS translated into Mexican pesos	Total
Current loan portfolio:				
Commercial credits				
Business or commercial activity	$ 109,927	$ 29,781	$ 4,254	$ 143,962
Financial entities	23,373	5,070	-	28,443
Governmental entities	315,359	-	4,613	319,972
Consumer credit	1	-	-	1
Housing credit				
Medium class and residential	100	-	-	100
Loans granted as an Agent of the Federal Government	-	516	-	516
	448,760	35,367	8,867	492,994
Valuation of hedged items				
Commercial credits				
Business or commercial activity	5,693	-	771	6,464
Governmental entities	2,791	-	386	3,177
Total valuation of hedged items	8,484	-	1,157	9,641
	457,244	35,367	10,024	502,635
Past-due portfolio				
Commercial credits				
Business or commercial activity	372	2,157	-	2,529
Consumer credit	10	-	-	10
Housing credit				
Medium class and residential	45	-	-	45
	427	2,157	-	2,584
Total loan portfolio	$ 457,671	$ 37,524	$ 10,024	$ 505,219

	2019			
	Mexican pesos	Foreign currency translated into Mexican pesos	UDIS translated into Mexican pesos	Total
Current loan portfolio:				
Commercial credits				
Business or commercial activity	$ 100,861	$ 28,175	$ 4,072	$ 133,108
Financial entities	23,199	4,912	-	28,111
Governmental entities	276,362	-	4,896	281,258
Consumer credit	1	-	-	1
Housing credit				
Medium class and residential	106	-	-	106
Loans granted as an Agent of the Federal Government	-	498	-	498
	400,529	33,585	8,968	443,082
Valuation of hedged items				
Commercial credits				
Business or commercial activity	2,182	-	327	2,509
Governmental entities	(277)	-	64	(213)
Total valuation of hedged items	1,905	-	391	2,296
	402,434	33,585	9,359	445,378
Past-due portfolio				
Commercial credits				
Business or commercial activity	372	2,044	-	2,416
Consumer credit	9	-	-	9
Housing credit				
Medium class and residential	48	-	-	48
	429	2,044	-	2,473
Total loan portfolio	$ 402,863	$ 35,629	$ 9,359	$ 447,851

c. Risk concentration analysis

i. Financing that constitutes a common risk

In conformity with Article 54 of the General Provisions Applicable to Credit Institutions, credits granted to the same person or group of persons who, for representing a common risk, are considered a single risk must be adjusted to the maximum limit resulting from applying the table shown.

Limit on percentage on basic capital	Level of capitalization
12%	From more than 8% and up to 9 %
15%	From more than 9% and up to 10%
25%	From more than 10% and up to 12%
30%	From more than 12% and up to 15%
40%	More than 15%

Financing that has unconditional, irrevocable guarantees that cover the principal and accessories executed by a foreign institution or financial entity that have a minimum investment rating, among other things, can exceed the maximum limit applicable to the entity involved, but under no circumstances can they represent more than 100% of the basic capital of the Institution for each person or group of persons who comprise a common risk.

At December 31, 2020 and 2019, the Institution complies with the limits described above.

ii. Main financing for own account[1]

The summation of the financing granted to the 3 major debtors, that loaned exclusively to full service banking institutions and those drawn down by entities and agencies belonging to the State-Owned Federal Public Administration, including public trusts, cannot exceed 100% of the basic capital of the Institution.

At December 31, 2020 and 2019, the maximum amount of financing payable by the 3 main borrowers subject to 100% of capital amounted to $23,265 and $25,372, respectively, which represented 0.4 times the basic capital of the Institution, as appropriate. By only considering the loans subject to the limit of concentration, at December 31, 2020 and 2019, the maximum amount of financing payable by the 3 main borrowers, whose sum must not exceed 100% of the basic capital, amounted to $32,386 y $31,045, respectively, which represented 48.9% and 50.3% of the basic capital, as appropriate.

As of December 31, 2020, the Institution maintains 23 loans granted in the amount of $376,184, which exceed 10% of the basic capital and represent 5.7 times the basic capital, whereas as of December 31, 2019, the Institution maintained 21 loans granted in the amount of $307,932 that exceed 10% of the basic capital and represented 5.0 times the basic capital.

As of December 31, 2020, the Institution maintains 7 loans subject to a 40% concentration limit that exceed 10% of the basic capital, which amounts to $63,666 and represents 0.96 times the basic capital, whereas as of December 31, 2019, there were 6 loans granted amounting to $50,784 and represent 0.82 times the basic capital.

[1] De conformidad con lo dispuesto en el último párrafo del Artículo 57 de las Disposiciones de Carácter General aplicables a las Instituciones de Crédito, en esta sección todas las referencias al capital básico o capital neto corresponden al importe del cierre del tercer trimestre de 2019 (septiembre de 2019).

iii. By economic, sector

At December 31, 2020 and 2019, the loan portfolio of the Institution, considering the activity of borrowers, is shown below:

	2020		2019	
	Amount	%	Amount	%
Federal Government (1)	$ 60,235	12	$ 54,548	12
State governments, decentralized public agencies and government-owned companies, agencies, and federal entities	259,496	52	214,552	48
Other public financial entities	757	1	4,824	1
Full-Service Banking	17,392	3	22,598	5
Other private financial entities	11,051	2	5,513	1
National entities	145,833	29	134,763	30
Individuals	155	-	164	-
Public development funds (1)	-	-	7,832	2
Foreign companies	659	1	761	1
	495,578	-	445,555	100
Valuation of hedged items	9,641	-	2,296	-
	$ 505,219	100	$ 447,851	100

(1) At December 31, 2020 and 2019, the portfolio payable by the Federal Government, including public development funds in the fiscal year, is summarized as follows:

	2020			2019		
	Principal	Interests	Total	Principal	Interests	Total
Loans granted as an Agent of the Federal Government	$ 514	$ 2	$ 516	$ 497	$ 1	$ 498
Portfolio for its own account	59,625	94	59,719	61,702	180	61,882
	60,139	96	60,235	62,199	181	62,380
Valuation of hedged items	287	-	287	(26)		(26)
	$ 60,426	$ 96	$ 60,522	$ 62,173	$ 181	$ 62,354

iv. By region

At December 31, 2020 and 2019, the loan portfolio of the Institution, considering the region where its borrowers are located, is as follows:

	2020		2019	
Zone	Amount	Percentage of concentration	Amount	Percentage of concentration
Loan portfolio:				
Qualifiable				
Central	$ 163,070	33%	$ 129,323	29%
North	125,693	25%	111,313	25%
South	145,822	29%	137,714	31%
Exempted:				
Central	60,236	13%	54,548	12%
Reserved 0.5%				
Central	757	-	12,657	3%
	495,578	100%	445,555	100%
Valuation of hedged items	9,641	-	2,296	
	$ 505,219	100%	$ 447,851	100%

d. Analysis of the economic environment (troubled loan portfolio)

The troubled loan portfolio at December 31, 2020 and 2019 is summarized as follows:

	2020			2019		
Commercial credits	Current portfolio	Past- due portfolio	Total	Current portfolio	Past- due portfolio	Total
Business or commercial activity	$ 7,086	$ 2,529	$ 9,615	$ 7,252	$ 2,416	$ 9,668
Governmental entities	31	-	31	38	-	38
Consumer credit	-	10	10	-	9	9
Housing credit						
Medium class and residential	10	45	55	3	48	51
Troubled loan portfolio	7,127	2,584	9,711	7,293	2,473	9,766
Non-troubled loan portfolio	485,867	-	485,867	435,789	-	435,789
Valuation of hedged items	9,641	-	9,641	2,296	-	2,296
	$ 502,635	$ 2,584	$ 505,219	$ 445,378	$ 2,473	$ 447,851

At December 31, 2020 and 2019, the troubled loan portfolio includes uncollected accrued interest in the amount of $112 and $173, respectively.

e. Restructured loan portfolio

Commercial credits	2020	2019
Business or commercial activity	$ 75,387	$ 56,762
Governmental entities	125,311	110,558
	$ 200,698	$ 167,320

At December 31, 2020 and 2019, restructured and renewed loans are recorded in performing portfolio and they do not have additional guarantees. At those dates, uncollected accrued interest arising from this portfolio amounts to $1,173 and $915, respectively.

f. Past-due loan portfolio

Aging

At December 31, 2020 and 2019, the past-due loan portfolio in accordance with its age is classified as follows:

	Principal and interest 2020				
Commercial credits	From 1 to 180 days	From 181 to 365 days	From 366 to 2 years	More than 2 years	Total
Business or commercial activity	-	-	$ 219	$ 2,310	$ 2,529
Consumer credit	$ 1	-	-	9	10
Housing credit					
Medium class and residential	3	$ 1	4	37	45
	$ 4	$ 1	$ 223	$ 2,356	$ 2,584

	Principal and interest 2019				
Commercial credits	From 1 to 180 days	From 181 to 365 days	From 366 to 2 years	More than 2 years	Total
Business or commercial activity	-	$ 220	$ 257	$ 1,939	$ 2,416
Consumer credit	-	-	-	9	9
Housing credit					
Medium class and residential	$ 8	1	1	38	48
	$ 8	$ 221	$ 258	$ 1,986	$ 2,473

Movements

At December 31, 2020 and 2019, the movements presented in the past-due loan portfolio is summarized as follows:

	2020	2019
Opening Balance	$ 2,473	$ 2,351
Increases:		
Reclassification from current to past-due loan portfolio	-	231
Valuation of foreign currency	113	-
Decreases:		
Valuation of foreign currency	-	86
Recoveries	2	19
Reclassification from past-due loan to performing portfolio	-	4
Final balance	$ 2,584	$ 2,473

g. Financial lease

At December 31, 2020 and 2019, transactions have been recorded under the modality of financial leasing, whose outstanding balance amounts to $12,296 and $30,345, respectively.

The Institution enters into financial lease agreements in which it is bound to acquire and assign its use to the lessor, subject matter of the lease in conformity with each agreement.

At December 31, 2020 and 2019, advances have been made that form part of the loan portfolio, which are allocated to the payment of the percentage of completion of the equipment under a lease agreement that are delivered in installments. Unleased assets and formalized commitments related to their acquisition have been recognized as follows:

	2020	2019
Loan portfolio (advances)	$ 12,296	$ 30,275
Unleased financial assets	94	323
Formalized commitments	148	345

At December 31, 2020 and 2019, the Institution did not enter into financial lease agreements.

h. Special Accounting Criteria (CCE)

As of December 31, 2020, 15 credits were incorporated into the temporary support program named CCE. 5 correspond to Credits with a business or commercial activity and 10 Credits to governmental entities. The captions approved correspond to deferring the payment on principal and interest. The financial impacts are discussed in detail in Note 3.

12. Allowance for loan losses

At December 31, 2020 and 2019, as a result of the rating of the total ratable portfolio, the amount of the allowance for loan losses is summarized as follows:

	2020	2019
Commercial credits (a)		
Business or commercial activity (a.1)	$ 5,983	$ 5,070
Financial entities (a.2)	349	358
Governmental entities (a.3)	1,893	1,794
Consumer credit (b)	9	9
Housing credit		
Medium class and residential (c)	33	32
	8,267	7,263
For guarantees and contingent lines of credit	675	700
For additional reserves:		
Recognized by the CNBV (e)	2,893	3,027
	$ 11,835	$ 10,990

At December 31, 2020 and 2019, the loan portfolio risk rating is presented below:

a. Commercial credits

a.1 Business or commercial activity

	2020		2019	
Degree of risk	Exposure	Expected loss	Exposure	Expected loss
A-1	$ 126,818	$ 634	$ 113,546	$ 570
A-2	799	9	-	-
B-1	-	-	12,309	185
B-2	7,654	187	-	-
B-3	1,605	63	-	-
C-1	-	-	-	-
C-2	2,806	430	4,856	643
D	2,086	523	321	126
E	4,723	4,137	4,492	3,546
Total	$ 146,491	$ 5,983	$ 135,524	$ 5,070

a.2 Financial entities

	2020		2019	
Degree of risk	Exposure	Expected loss	Exposure	Expected loss
A-1	$ 21,849	$ 137	$ 16,862	$ 74
A-2	1,523	21	-	-
B-1	-	-	6,337	118
B-3	5,071	191	4,912	166
C-1	-	-	-	-
Total	$ 28,443	$ 349	$ 28,111	$ 358

a.3 Governmental entities

	2020		2019	
Degree of risk	Exposure	Expected loss	Exposure	Expected loss
A-1	$ 164,556	$ 705	$ 143,217	$ 608
A-2	81,842	831	63,180	626
B-1	1,527	20	7,443	112
B-2	2,674	40	531	8
B-3	7,448	217	10,717	345
C-1	2,175	75	2,095	89
C-2	7	1	10	1
D	24	4	28	5
Total	$ 260,253	$ 1,893	$ 227,221	$ 1,794

At December 31, 2020 and 2019, the balance of the allowance for loan losses for Governmental Entities in the A-1 risk rating includes the reserve payable by the Federal Government at 0.5% for $4 and $63, respectively.

At December 31, 2020 and 2019, that reserve at 0.5% amounts to $35,757 and $33,056, respectively. That amount includes the loan portfolio, net of unaccrued interest and contingent lines.

b. Consumer credit

Degree of risk	2020 Exposure	2020 Expected loss	2019 Exposure	2019 Expected loss
A-1(*)	-	-	$ 1	-
A-2(*)	-	-	-	-
B-1(*)	-	-	-	-
B-2(*)	-	-	-	-
B-3(*)	-	-	-	-
C-1(*)	-	-	-	-
E	$ 10	$ 9	9	$ 9
Total	$ 10	$ 9	$ 10	$ 9

(1) Amounts lower than one million Mexican pesos

c. Medium class and residential

Degree of risk	2020 Exposure	2020 Expected loss	2019 Exposure	2019 Expected loss
A-1(*)	$ 33	-	$ 78	-
A-2(*)	5	-	9	-
B-1(*)	1	-	1	-
B-2(*)	26	-	12	-
B-3(*)	14	-	3	-
C-1(*)	10	-	1	-
C-2	16	$ 2	12	$ 1
D	8	2	11	4
E	32	29	27	27
Total	$ 145	$ 33	$ 154	$ 32

(*) Amounts lower than one million Mexican pesos

d. Guarantees and contingent lines of credit

Degree of risk	2020 Exposure	2020 Expected Loss	2019 Exposure	2019 Expected Loss
A-1	$ 94,141	$ 410	$ 66,697	$ 296
A-2	15,318	175	19,543	217
B-1	45	1	11,254	180
B-2	305	7	133	3
B-3	2,966	81	58	2
C-1	18	1	36	2
Total	$ 112,793	$ 675	$ 97,721	$ 700

e. At December 31, 2020 and 2019, the balance of additional reserves recognized by the CNBV are summarized as follows:

	2020	2019
State and municipal governments (global)	$ 656	$ 586
Companies (business activity) (a)	2,237	2,441
	$ 2,893	$ 3,027

As of December 31, 2020, the balance of the portfolio payable by the Federal Government exempted and reserved at 0.5% amounts to $60,235 and $35,757, respectively, whereas in 2019 the amounts were $54,548 and $33,056, respectively.

The universe of the total rated portfolio at December 31, 2020 and 2019 amounted to $548,135 and $488,741, respectively, which includes the commercial portfolio, the reserved Federal Government portfolio reserved at 0.5%, the contingent portfolio, and the guarantees furnished with their induced credit, as well as consumer and housing credit.

At December 31, 2020 and 2019, the universe of the rated portfolio is summarized as follows:

Rated loan portfolio:	2020	2019
Balance Sheet:		
Portfolio	$ 495,577	$ 445,555
Valuation of the hedged item	9,641	2,296
Total portfolio balance sheet	505,218	447,851
Accrued interest from financial leasing	-	13
Memorandum accounts	112,793	97,721
	618,011	545,585
Excepted Federal Government Portfolio	(60,235)	(54,548)
Valuation of the hedged item	(9,641)	(2,296)
	(69,876)	(56,844)
Rated portfolio	$ 548,135	$ 488,741

At December 31, 2020 and 2019, the movements of the Allowance for loan losses are presented below:

	2020	2019
Opening Balance	$ 10,990	$ 10,732
Allowance for loan losses	710	334
Additional estimates for the year (1)	518	733
Release of additional estimates (2)	(383)	(809)
Final balance	$ 11,835	$ 10,990

(1) At December 31, 2020 and 2019, additional reserves were created recognized by the CNBV for risks not foreseen in the rating methodologies of the loan portfolio in the amount of $518 and $733, respectively.

(2) At December 31, 2020 and 2019, additional reserves were applied recognized by the CNBV for risks not foreseen in the rating methodologies of the loan portfolio in the amount of $383 and $809, respectively, since the assumptions for which they were created materialized.

For the years ended December 31, 2020 and 2019, the gain or loss on the Allowance for loan losses amounted to $783 and $244, respectively.

f. **Special Accounting Criteria (CCE)**

As of December 31, 2020, the impacts on the preventive estimate for credit risks for incorporating credits into the temporary support program named CCE are discussed in detail in Note 3.

13. Other accounts receivable, net

At December 31, 2020 and 2019, the caption of other receivables is summarized as follows:

	2020	2019
VAT loan portfolio operations	$ 4,556	$ 4,737
Employee loans (1)	2,273	2,229
Debtors for collateral granted in cash (2)	20,384	5,381
Debtors for clearing accounts	-	3,622
Other accounts receivables (3)	197	283
	27,410	16,252
Allowance for uncollectible or doubtful accounts	(28)	(92)
	$ 27,382	$ 16,160
Balance as an Agent of the Supporting Fund Mandate to States and Municipalities (FOAEM) (4)	$ 44	$ 162

(1) At December 31, 2020 and 2019, employee's loans are summarized as follows:

Type of loan	2020	2019	Annual rate	Term
Short-term	$ 3	$ 4		Up to 24 months
Medium-term	968	967	4%	Up to 6 years
Mortgage	823	838	4% the first 15 years and 6% the last 5 years	Up to 20 years
Special for savings	477	412	1%	3 to 6 years
Special transportation	2	10	-	Up to 3 years
Others	-	(2)	-	
	$ 2,273	$ 2,229		

(2) The Institution furnished guarantees for derivative financial trading (swaps), which are determined based on the fair value of the instrument portfolio, and they are restricted with regard to their availability. At December 31, 2020 and 2019, interest earned on these guarantees amounted to $848 and $234, respectively (Note 26).

(3) At December 31, 2020 and 2019, other accounts receivables are summarized as follows:

	2020	2019
Other accounts receivables:		
Tax recoverable balances	$ 73	$ 77
Other debts on derivative financial trading	38	52
Receivables for commissions on current trading activities	25	81
Trust company fees	52	51
Others	9	22
	$ 197	$ 283

(4) At December 31, 2020 and 2019, the balance as a FOAEM mandate agent is summarized as follows:

Asset balances:	2020	2019
For own account		
Exchange rate fluctuations	$ 111	$ 235
Others	6	7
Total balances due from the FOAEM	117	242
Liability balances:		
For own account		
Restatement of investment units	63	70
Others	5	5
	68	75
By financial agent		
Restatement of investment units	5	5
	5	5
Total balances due to the FOAEM	73	80
Assets as an agent of the FOAEM mandate	$ 44	$ 162

As of December 31, 2020, the asset notional value corresponding to the foreign currency liability of the operations of the FOAEM is equivalent to 12 million USD. The liability notional value relative to the asset in UDIS amounts to 5 million UDIS, whereas as of December 31, 2019, the asset notional value corresponding to the foreign currency liabilities is equivalent to 29 million USD, and the liability notional value relative to the asset in UDIS amounts to 6 million UDIS.

14. Property, furniture and equipment (net)

At December 31, 2020 and 2019, this item is summarized as follows:

	2020			2019		
	Asset value	Accumulated depreciation	Rates	Asset value	Accumulated depreciation	Rates
Land	$ 168	-		$ 168	-	
Buildings	468	$ 119	(1)	468	$ 114	(1)
Furniture and office equipment	87	80	10%	87	78	10%
Computer equipment	25	25	30%	25	25	30%
Transportation equipment	12	12	25%	12	12	25%
Adaptations and improvements	-	-	5 y 10%	52	49	5 and 10%
Total fixed assets	760	$ 236		812	$ 278	
	$ 524			$ 534		

(1) These assets are depreciated in accordance with their estimated useful life.

At December 31, 2020 and 2019, depreciation amounts to $10 and $8, respectively.

15. Permanent investments

At December 31, 2020 and 2019, the balance of permanent investments is summarized as follows:

		2020		2019	
	Entity interest	Cost of acquisition	Carrying value	Cost of acquisition	Carrying value
Banco Nacional de Comercio Exterior, S.N.C.	0.0027%	-	$ 1	-	$ 1
Banco Latinoamericano de Exportaciones	0.0370%	-	1	-	1
Corporacion Mexicana de Inversiones de Capital, S. A. de C. V.	6.0000%	$ 68	72	$ 68	72
		$ 68	$ 74	$ 68	$ 74

16. Other assets

At December 31, 2020 and 2019, this item is comprised of the following items:

	2020	2019
Other assets, deferred charges, and intangibles (1)	$ 483	$ 249
Labor obligations (Note 21)	3,297	3,732
Reconciling item	-	1
Labor obligations	3,297	3,733
	$ 3,780	$ 3,982

(1) Other assets, deferred charges, and intangibles are presented below:

Item	Balance 2019	Additions	Applications	Balance 2020
Recoverable tax balances (ISR)	$ 203	$ 443	$ 205	$ 441
Service providers and supervision agencies	4	87	87	4
Issue of bonds and securities exchange certificates	42	36	40	38
	$ 249	$ 566	$ 332	$ 483

17. Deposit funding

At December 31, 2020 and 2019, traditional deposits are summarized as follows:

	2020	2019
Time deposit		
Money market (a)	$ 375,078	$ 355,136
Debt securities issued (b)	66,832	62,167
	$ 441,910	$ 417,303

(a) Time deposit - Money market

At December 31, 2020 and 2019, this caption is summarized as follows:

	2020	2019
Promissory notes with liquid yield at maturity (PRLV-Spanish acronym)	$ 311,182	$ 297,912
Certificates of deposit (1)	61,248	55,360
Time deposit in U.S. dollars	2,648	1,864
	$ 375,078	$ 355,136

At December 31, 2020 and 2019, the issue of long-term PRLVs amounts to $8,268 and $9,130, and accrued interest amounts to $6,344 and $6,053, respectively.

(1) At December 31, 2020 and 2019, the Institution has outstanding bank securities in local and foreign currency as follows:

	2020					
	Number of titles	Nominal value (ii)	Principal	Interest	Valuation hedged item (i)	Total
Certificates of deposit						
FBANOBRA (iii)	392,688,946	100 MN	$ 38,971	$ 156	$ 766	$ 39,893
FBANOBRAU	20,927,017	100 UDIS	13,824	1,821	1,370	17,015
FBANOBRAD	2,179,939	100 USD	4,340	-	-	4,340
	415,795,902		$ 57,135	$ 1,977	$ 2,136	$ 61,248

	2019					
	Number of titles	Nominal value (ii)	Principal	Interest	Valuation hedged item (i)	Total
Certificates of deposit						
FBANOBRA (iii)	383,488,946	100 MN	$ 37,997	$ 320	$ 137	$ 38,454
FBANOBRAU	17,557,368	100 UDIS	11,235	1,628	241	13,104
FBANOBRAD	2,014,802	100 USD	3,800	2	-	3,802
	403,061,116		$ 53,032	$ 1,950	$ 378	$ 55,360

(i) This amount corresponds to the valuation of risks hedged of financial liabilities that are subject to hedges with derivative financial instruments. That valuation is determined by the fair value of the risks hedged in hedging relationships.
(ii) The nominal value of the securities is the price at maturity of the issue for each outstanding security.
(iii) At December 31, 2020 and 2019, the Institution maintains a zero coupon issue. At those same dates, the Institution maintains an issue placed at a discount (Note 2, section r, paragraph six).

The rates and terms of the Time deposit are summarized below:

	2020		2019	
Issue in Mexican pesos:	Interest rate divided by %	Terms divided by days	Interest rate divided by %	Terms divided by days
Securities exchange PRLVs	4.00 y 7.45	1 y 364	6.96 and 8.55	1 and 364
Long-term PRLV	13.23 y 18.47	6,577 y 7,301	11.50 and 28.75	3,654 and 7,305
Certificates of deposit:				
Mexican pesos	4.36 y 14.50	3 y 4,137	6.14 and 14.50	9 and 4,168
UDIS	0.45 y 6.11	14 y 10,903	3.19 and 6.11	135 and 10,823
Foreign currency	0.14 y 1.85	1 y 167	1.67 and 2.58	2 and 167
Deposits in US dollars	0.06 y 1.58	1 y 49	0.06 and 2.20	1 and 49

During fiscal year 2020, the Institution redeemed the PRLV titles that are detailed below:

Key	Number of titles	Redemption date
ILBANOBRA 001BCA (1)	415,778,159	November 30, 2020
ILBANOBRA 001BCB (1)	237,191,035	November 30, 2020
ILBANOBRA 001BCP (2)	507,779,893	November 30, 2020
ILBANOBRA 001BCP (2)	82,956,688	November 30, 2020
ILBANOBRA 01CHIH (3)	1,400,000,000	January 7, 2020
ILBANOBRA 02CHIH (3)	1,200,000,000	January 7, 2020
ILBANOBRA 03CHIH (3)	400,000,000	January 7, 2020
ILBANOBRA 04CHIH (3)	400,000,000	January 7, 2020
ILBANOBRA 05CHIH (3)	400,000,000	January 7, 2020

The authorization documents of Banco de México are the following: (1) OFI003-31269 of October 7, 2020, (2) OFI003-31271 of October 7, 2020 and (3) OFI003-28397 of October 16, 2019.

As of December 31, 2019, the Institution did not redeem term deposit securities.

(b) Debt securities issued

At December 31, 2020 and 2019, the Institution has outstanding bank values or securities in local and foreign currency as follows:

	2020					
	Number of titles	Nominal value (ii)	Principal	Interest	Valuation hedged item (i)	Total
Securities exchange certificate						
CDBANOB (iii)	534,000,000	100 MN	$ 53,351	$ 469	$ 2,348	$ 56,168
CDBANOBU	5,233,324	100 UDIS	3,457	10	60	3,527
	539,233,324		56,808	479	2,408	59,695
Securities outstanding abroad						
JBANOB	37	1,000,000,000 YEN	7,136	1	-	7,137
	539,233,361		$ 63,944	$ 480	$ 2408	$ 66,832

	2019					
	Number of titles	Nominal value (ii)	Principal	Interest	Valuation hedged item (i)	Total
Securities exchange certificate						
CDBANOB (iii)	519,000,000	100 MN	$ 51,839	$ 470	$ 69	$ 52,378
CDBANOBU	5,233,324	100 UDIS	3,349	9	7	3,365
	524,233,324		55,188	479	76	55,743
Securities outstanding abroad						
JBANOB (iv)	37	1,000,000,000 YEN	6,423	1	-	6,424
	524,233,361		$ 61,611	$ 480	$ 76	$ 62,167

(i) This amount corresponds to the valuation of risks hedged of financial liabilities that are subject to hedges with derivative financial instruments. That valuation is determined by the fair value of the risks hedged in hedging relationships.
(ii) The nominal value of the securities is the price at maturity of the issue for each outstanding security.
(iii) At December 31, 2020 and 2019, the Institution maintains an issue of securities placed at a discount. Toward that end, a deferred charge was recognized for the difference between the nominal value and the amount of cash received, which are shown in the liability that gave rise thereto for purposes of presentation.
(iv) Interest generated on the issue in Japanese yens are payable semi-annually on June 29 and December 29 every year, at a 3% fixed annual rate for 30 years of validity of the issue.

The rates and terms of the Negotiable instruments are summarized below:

	2020		2019	
Securities exchange certificates:	Interest rate divided by %	Terms divided by days	Interest rate divided by %	Terms divided by days
Mexican pesos	4.44 and 8.29	31 and 3,407	5.16 and 8.49	244 and 3,438
UDIS	2.97 and 3.96	309 and 5,227	2.97 and 3.96	675 and 5,258

During fiscal 2020 and 2019, the Institution did not redeem debt securities debt securities issued early.

At December 31, 2020 and 2019, the Institution is authorized by the CNBV to perform preventive registrations of its issues in the securities section of the National Securities Register under the generic modality.

As of December 31, 2020, the amount of commissions paid and other expenses amounted to $19 and $20, respectively (as of December 31, 2019, $17 and $20, respectively).

The amortized amount of the discount at those dates is integrated, as follows (Note 26):

	2020	2019
Promissory notes with liquid yield at maturity (PRLV-Spanish acronym)	$ 1,116	$ 1,120
Certificates of deposit (CEDES)	54	50
Securities exchange certificates (CEBURES)	13	13
	$ 1,183	$ 1,183

At December 31, 2020 and 2019, interest expenses for deposit funding and the discount for debt placement amounted to $23,802 and $31,680, respectively (Note 26).

18. Interbank loans and from other agencies

At December 31, 2020 and 2019, interbank loans and from other agencies are summarized as follows:

	2020	2019
Immediately due and payable:		
Call Money (a)	$ 9,288	$ 1,050
Short-term:		
Loans from Banxico (b)	9,006	9,012
Loans from Financial Institutions (c)	3,086	4,057
Loans as an Agent of the Federal Government (d)	43	50
Loans for its own account (e)	1,213	1,474
	13,348	14,593

	2020	2019
Long-term:		
Loans as an Agent of the Federal Government (d)	473	447
Loans for its own account (e)	16,069	18,210
	16,542	18,657
Valuation of hedged items (1)	65	(44)
	16,607	18,613
	$ 39,243	$ 34,256

(1) Some of the financial liabilities of the Institution are subject to foreign exchange rate risk and/or interest rate hedges with derivative financial instruments. The amount on valuation is determined by the fair value of the hedged risks.

(a) Call Money

At December 31, 2020 and 2019, call money received is summarized as follows:

	2020				
	Mexican pesos				
Currency	Principal	Interest	Total	Rate	Term
Mexican pesos	$ 200	-	$ 200	4.20%	4 days
Mexican pesos	199	-	199	4.25%	4 days
Mexican pesos	6,000	-	6,000	4.26%	4 days
Mexican pesos	2,690	-	2,690	4.30%	4 days
U.S. dollar	199	-	199	0.16%	5 days
	$ 9,288	-	$ 9,288		

	2019				
	Mexican pesos				
Currency	Principal	Interest	Total	Rate	Term
Mexican pesos	$ 1,000	-	$ 1,000	7.25%	2 days
Mexican pesos	50	-	50	7.20%	2 days
	$ 1,050	-	$ 1,050		

(b) Loans from Bank of Mexico

At December 31, 2020 and 2019, loans from Banco de Mexico are summarized as follows:

	2020				
	Mexican pesos				
Currency	Principal	Interest	Total	Rate	Term
Mexican pesos	$ 500	$ 1	$ 501	4.25%	17 days
Mexican pesos	1,500	2	1,502	4.25%	20 days
Mexican pesos	1,000	-	1,000	4.25%	21 days
Mexican pesos	3,500	1	3,501	4.25%	22 days
Mexican pesos	1,000	-	1,000	4.25%	23 days
Mexican pesos	1,500	2	1,502	4.27%	21 days
	$ 9,000	$ 6	$ 9,006		

	2019				
	Mexican pesos				
Currency	Principal	Interest	Total	Rate	Term
Mexican pesos	$ 1,500	$ 3	$ 1,503	7.25%	14 days
Mexican pesos	2,000	3	2,003	7.25%	10 days
Mexican pesos	1,000	-	1,000	7.25%	8 days
Mexican pesos	1,500	3	1,503	7.27%	13 days
Mexican pesos	2,000	2	2,002	7.27%	7 days
Mexican pesos	1,000	1	1,001	7.28%	13 days
	$ 9,000	$ 12	$ 9,012		

(c) Loans from financial institutions

At December 31, 2020 and 2019, loans from Financial Institutions are summarized as follows:

Short-term

2020

Currency	Principal foreign currency	Principal Mexican pesos	Interest	Total	Rate	Term
U.S. dollar	55	$ 1,095	-	$ 1,095	0.18%	7 days
U.S. dollar	80	1,593	-	1,593	0.20%	8 days
U.S. dollar	20	398	-	398	0.20%	12 days
		$ 3,086	-	$ 3,086		

2019

Currency	Principal foreign currency	Principal Mexican pesos	Interest	Total	Rate	Term
U.S. dollar	55	$ 1,038	-	$ 1,038	1.70%	8 days
U.S. dollar	5	94	-	94	1.71%	8 days
U.S. dollar	20	378	-	378	1.78%	8 days
U.S. dollar	45	849	-	849	1.70%	9 days
U.S. dollar	35	660	-	660	1.78%	9 days
U.S. dollar	45	849	-	849	1.70%	10 days
U.S. dollar	10	189	-	189	1.78%	10 days
	215	$ 4,057	-	$ 4,057		

(d) Loans as an Agent of the Federal Government

At December 31, 2020 and 2019, loans as an Agent of the Federal Government are summarized as follows:

Short-term

	Loan number	Term of funding in years	Date of formalization of loan	Principal balance (thousands USD)	Outstanding balance interest (thousands USD)	Total Outstanding balance (thousands USD)	Outstanding balance Mexican pesos 2020	Outstanding balance Mexican pesos 2019	Last applicable rate
Natixis Bank: PROTOCOLS (i)	n/a	31	26-Jan-81	2,091	50	2,141	$ 43	$ 50	(*)1.75%

(*) Average rate.
(i) Contracted in euros, which were translated into U.S. Dollars for purposes of presentation.

Long-term

	Loan number	Term of funding in years	Date of formalization of loan	Principal balance (thousands USD)	Outstanding balance interest (thousands USD)	Total Outstanding balance (thousands USD)	Outstanding balance Mexican pesos 2020	Outstanding balance Mexican pesos 2019	Last applicable rate
Natixis Bank: PROTOCOLOS (i)	n/a	31	26-Jan-81	23,755	-	23,755	$ 473	$ 447	(*) 1.75%

(*) Average rate.
(i) Contracted in euros, which were translated into U.S. Dollars for purposes of presentation.

At December 31, 2020 and 2019, the Institution does not have credits that have not been drawn down as a Financial Agent of the Federal Government.

(e) Loans for its own account

As of December 31, 2020 and 2019, loans for its own account are summarized as follows:

Short-term

	Loan number	Term of funding in years	Date of formalization of loan	Principal balance (thousands USD)	Outstanding interest balance (thousands USD)	Total outstanding balance (thousands USD)	Outstanding balance Mexican pesos 2020	Outstanding balance Mexican pesos 2019	Last applicable rate
(i)	1383-BID	25	10-Mar-02	-	-	-	-	$ 68	(*) 9.56%
(i)	2053-BID	25	09-Sep-09	-	-	-	-	41	4.74%
(i)	1744-BID	25	06-Mar-07	6,287	583	6,870	$ 137	146	(*) 4.42%
(i)	7230-BIRF	18	09-Mar-05	4,077	131	4,208	84	89	(*) 5.07%
(ii)	1214-OC-ME-BID	25	25-Oct-99	1,301	20	1,321	26	26	2.09%
(ii)	1383-OC-ME-BID	25	10-Mar-02	2,524	45	2,569	51	203	(*) 1.61%
(ii)	1744-OC-ME-BID	25	06-Mar-07	393	16	409	8	8	1.12%
(ii)	2053-BID	25	09-Sep-07	14,692	770	15,462	308	316	(*) 2.51%
(ii)	2550-BID	25	29-Nov-11	14,593	121	14,714	293	282	1.12%
(ii)	3313-BID	25	10-Dec-14	2,426	971	3,397	67	73	(*)2.21%
(ii)	96291-BIRF (iii)	20	21-Jul-10	6,202	20	6,222	124	117	0.75%
(ii)	7883-BIRF	13	21-Jul-10	4,645	24	4,669	93	85	1.22%
(ii)	8386-BIRF	13	13-Jun-14	1,120	6	1,126	22	20	1.07%
				58,260	2,707	60,967	$ 1,213	$ 1,474	

(*) Average rate.
(i) Contracted in Mexican pesos.
(ii) Contracted in US dollars.

Long-term

	Loan number	Term of funding in years	Date of formalization of loan	Outstanding balance (thousands USD)	Total outstanding balance (thousands USD)	Unpaid balance Mexican pesos 2020	Unpaid balance Mexican pesos 2019	Last applicable Rate
(i)	1383-BID	25	10-Mar-02	-	-	-	$ 382	(*) 9.56%
(i)	2053-BID	25	09-Sep-09	-	-	-	453	(*) 4.74%
(i)	1744-BID	25	06-Mar-07	65,461	65,461	$ 1,303	1,428	(*) 4.42%
(i)	7230-BIRF	18	09-Mar-05	1,948	1,948	39	120	(*) 5.07%
(ii)	1214-OC-ME-BID	15	21-Nov-05	3,903	3,903	78	98	2.09%
(ii)	1383-OC-ME-BID	25	25-Oct-99	11,841	11,841	236	1,260	(*) 1.61%
(ii)	1744-OC-ME-BID	25	10-Mar-02	4,126	4,126	82	85	1.12%
(ii)	2053-BID	25	06-Mar-07	190,990	190,990	3,802	3,880	2.51%
(ii)	2550-BID	25	09-Sep-07	217,253	217,253	4,325	4,374	1.12%
(ii)	3313-BID	25	29-Nov-11	213,995	213,995	4,260	4,083	2.21%
(ii)	96291-BIRF	25	10-Dec-14	49,613	49,613	988	1,053	0.75%
(ii)	7883-BIRF	20	21-Jul-10	36,807	36,807	733	782	1.22%
(ii)	8386-BIRF	13	21-Jul-10	11,186	11,186	223	212	1.07%
				807,123	807,123	$ 16,069	$ 18,210	

(*) Average rate.
(i) Contracted in Mexican pesos.
(ii) Contracted in US dollars.

Maturities of long-term loans:

Amortizations of capital of long-term loans in the next six fiscal years are presented below (Mexican pesos):

Year	Amortization
2022	$ 1,169
2023	1,143
2024	1,155
2025	4,520
2026	1,052
2027	1,030
More than 6 years	6,473
	$ 16,542

At December 31, 2020 and 2019, the Institution maintains credit lines contracted that have not been drawn down that amount to $5,511 and $7,130, respectively.

At December 31, 2020 and 2019, there are no proprietary guarantees furnished for financing received.

At December 31, 2020 and 2019, interest expenses on interbank loans amount to $996 and $1,520, respectively. (Note 26)

19. Tax on earnings (Income Tax (ISR) and Employee Profit Sharing (PTU)

a. Taxes on earnings

Income tax for the year is determined by applying the 30% corporate rate to the result of reducing authorized deductions and employee profit sharing from cumulative income and, if applicable, prior year tax loss carryforwards.

At December 31, 2020 and 2019, taxes on earnings in the statement of income are summarized as follows:

	2020	2019
Income tax payable	-	$ 582
Deferred Income Tax	$ (605)	(123)
Taxes on earnings	$ (605)	$ 459

At December 31, 2020 and 2019, Income Tax payable was determined as follows:

	2020	2019
Taxable income	$ 63,873	$ 82,110
Authorized deductions	65,627	79,881
Income before deduction of PTU	(1,754)	2,229
PTU paid in the fiscal year	39	289
Income tax	(1,793)	1,940
Tax base	-	1,940
Tax rate	30%	30%
Income Tax assessed for the year	$ -	$ 582

The annual tax return for fiscal 2020 has not been filed with the tax authorities yet. The term for filing that return expires on March 31, 2021; therefore, the information reported can be modified. If applicable, it is estimated that the effects will not significantly modify the result.

Deferred Income Tax

Deferred income tax assets and liabilities determined on tax and book values at 2020 and 2019 fiscal years' end are summarized as follows:

	2020	2019
Deferred assets:		
Initial commissions collected	$ 853	$ 877
Allowance for loan losses	3,550	3,297
PTU for the year and deferred	90	112
Tax loss (1)	538	-
Total gross deferred assets	5,031	4,286
Less valuation allowance (Allowance for loan losses)	3,550	3,297
Deferred assets, net	1,481	989
Deferred liabilities:		
Release of reserves	531	607
Derivative financial instruments	824	819
Fixed asset and other deferred charges	(120)	(78)
Total deferred liabilities	1,235	1,348
Net deferred income tax liability (1)	$ (246)	$ 359

(1) In fiscal year 2020, a net deferred tax asset was generated derived from the tax loss observed in said fiscal year.

Reconciliation of the effective rate and the real income tax rate for fiscal 2020 and 2019

A reconciliation between the assessed statutory tax rate as set forth in the Income Tax Law, as well as the effective tax rate recognized in the accounting at December 31, 2020 and 2019 is presented below.

	2020		
	Amount	Tax	Effective rate
Income before tax on earnings	$ 55	$ 17	30.00%
Plus:			
Nondeductible expenses	38,630	11,589	21070.00%
Taxable income	3,367	1,010	1836.00%
Less:			
Deductible expenses	5,181	1,555	2825.00%
Non-cumulative revenues	38,625	11,587	21068.00%
Income before deduction of PTU	(1,754)	(526)	(957.00)%
Less:			
PTU paid in the fiscal year	39	12	21.00%
Taxable income for the year	(1,793)	(538)	(978.00)%
Total tax assessed		-	0.00%
Allocation to deferred tax			
Temporary items	(255)	(76)	(140.00)%
Release of reserves	18	6	11.00%
Financial instruments and derivatives	81	24	44.00%
Revenues and unamortized expenses	(69)	(21)	(37.00)%
Fixed assets, provisions and other deferred charges	(1,793)	(538)	(978.00)%
Deferred tax liability	$ (2,018)	(605)	(1100.00)%
Taxes on earnings		$ (605)	(1100.00)%

	2019		
	Amount	Tax	Effective rate
Income before tax on earnings	$ 4,813	$ 1,444	30.00%
Plus:			
Nondeductible expenses	18,453	5,536	115.02%
Taxable income	4,016	1,205	25.03%
Less:			
Deductible expenses	4,151	1,245	25.87%
Non-cumulative revenues	20,902	6,271	130.29%
Income before deduction of PTU	2,229	669	13.89%
Less:			
PTU paid in the fiscal year	289	87	1.80%
Taxable income for the year	1,940	582	12.09%
Total tax assessed		582	12.09%
Allocation to deferred tax			
Temporary items			
Release of reserves	(123)	(37)	(0.77)%
Financial instruments and derivatives	(193)	(58)	(1.20)%
Revenues and unamortized expenses	118	36	0.74 %
Fixed assets, provisions and other deferred charges	(212)	(64)	(1.32)%
Deferred tax liability	$ (410)	(123)	(2.55)%
Taxes on earnings		$ 459	9.54 %

At December 31, 2020 and 2019, the permanent items on which the statutory tax rate differs from the effective rate are summarized as follows:

	2020		2019	
	Tax	%	Tax	%
Income before tax on earnings	$ 55		$ 4,813	
Tax expected	17	30.00	1,444	30.00
Increase (reduction) resulting from:				
Annual adjustment on inflation	(672)	(1221.00)	(529)	(10.99)
Release of reserves	154	280.00	73	1.52
Preventive estimate for loan risks	235	427.00	73	1.52
Nondeductible expenses	24	43.00	51	1.06
Market valuation	(384)	(698.00)	(682)	(14.17)
Net cost for the period	187	340.00	89	1.85
Initial commission	(36)	(65.00)	(86)	(1.80)
Derivative Financial trading	(56)	(102.00)	88	1.83
Non-cumulative revenues	(25)	(45.00)	(16)	(0.33)
Provision of expenses and deferred employee profit sharing	34	62.00	64	1.33
Other tax losses, net	(16)	(29.00)	13	0.27
Expense (income) for income tax	$ (538)	(978.00)	$ 582	12.09

Tax losses (ISR)

As of December 31, 2020, the tax loss was $1,793, in 2019 there were no tax losses from previous years pending amortization against the tax profit for said year.

b. Deferred PTU

At December 31, 2020 and 2019, the Institution recorded income from deferred PTU amounting to $29 and $54, respectively.

At December 31, 2020 and 2019, the effects of deferred PTU on temporary differences arising from assets and liabilities are summarized below:

	2020	2019
Deferred assets:		
Initial commissions	$ 284	$ 292
Allowance for loan losses	1,183	1,099
Total gross deferred assets	1,467	1,391
Less valuation allowance (Allowance for loan losses)	1,184	1,099
Deferred assets, net	283	292
Deferred liabilities:		
Release of reserves	177	203
Derivative financial instruments	274	273
Fixed assets, provisions and other deferred charges	(40)	(27)
Total deferred liabilities	411	449
Net deferred PTU liability	$ 128	$ 157

20. Other liabilities and other accounts payables

At December 31, 2020 and 2019, other liabilities and other accounts payables are summarized as follows:

	2020	2019
Taxes withheld and shifted	$ 4,655	$ 4,866
Other liabilities	515	370
Unrealized allocations	328	134
Provisions for other obligations	98	79
Financial lease assets and liabilities (1)	54	22
Contributions to social security	17	16
	$ 5,667	$ 5,487

(1) At December 31, 2020 and 2019, financial lease assets and liabilities in are summarized as follows:

	2020	2019
Unassigned assets in financial lease agreements	$ 94	$ 323
Liabilities for acquisition of assets for financial lease	148	345
	$ 54	$ 22

As of December 31, 2019, these commitments formalized for the acquisition of the goods were covered with derivatives (forward contracts) for exchange rate risk, which expired in 2020.

21. Employee benefits

- Defined benefit pension plan

A reconciliation between defined benefit obligations (DBO) and plan assets (PA) at December 31, 2020 and 2019 with the liabilities recognized in the balance sheets at those dates is presented below:

	2020				
Provisions for:	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Defined Benefit Obligations (DBO)	$ (13,146)	$ (20)	$ (11,889)	$ (14)	$ (25,069)
Fair value of plan assets	13,739	13	9,777	-	23,529
Plan assets (PA)	593	(7)	(2,112)	(14)	(1,540)
Unrecognized actuarial losses	2,273	-	2,404	-	4,677
Projected net asset (liability) recognized in the balance sheet (Note 16)	$ 2,866	$ (7)	$ 292	$ (14)	$ 3,137

Provisions for:	2019 Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Defined Benefit Obligations (DBO)	$ (12,449)	$ (18)	$ (11,015)	$ (15)	$ (23,497)
Fair value of plan assets	13,074	10	8,870	-	21,954
Plan assets (PA)	625	(8)	(2,145)	(15)	(1,543)
Unrecognized actuarial losses	2,501	2	2,644	1	5,148
Projected net asset (liability) recognized in the balance sheet (Note 16)	$ 3,126	$ (6)	$ 499	$ (14)	$ 3,605

The summary of the net cost for the period ended December 31, 2020 and 2019 is shown below:

	2020 Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Summary of net cost of the period 2020:					
Labor cost of present service	$ 39	$ 1	$ 49	$ 1	$ 90
Financial cost	905	1	808	1	1,715
Expected return on plan assets	(952)	(1)	(647)	-	(1,600)
Actuarial loss, net	222	3	344	-	569
Net cost for the period	$ 214	$ 4	$ 554	$ 2	$ 774

	2019 Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Summary of net cost of the period 2019:					
Labor cost of present service	$ 42	$ 1	$ 49	$ 1	$ 93
Financial cost	931	1	811	1	1,744
Expected return on plan assets	(1,040)	(1)	(736)	-	(1,777)
Actuarial loss, net	(88)	2	275	2	191
Net cost for the period	$ (155)	$ 3	$ 399	$ 4	$ 251

At December 31, 2020 and 2019, employee benefits for vested and nonvested benefit obligations are shown below:

Provisions for:	2020 Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Vested benefit obligation	$ 12,500	$ 18	$ 10,837	$ -	$ 23,355
Nonvested benefit obligation	646	2	1,052	14	1,714
Defined Benefit Obligations (DBO)	$ 13,146	$ 20	$ 11,889	$ 14	$ 25,069

Provisions for:	2019 Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Vested benefit obligation	$ 11,658	$ 16	$ 9,809	-	$ 21,483
Nonvested benefit obligation	791	2	1,206	$ 15	2,014
Defined Benefit Obligations (DBO)	$ 12,449	$ 18	$ 11,015	$ 15	$ 23,497

Changes in the present value of defined benefit obligations (DBO) are shown below:

	2020				
	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Defined benefit obligation (DBO)					
Present value of the DBO at January 1, 2020	$ 12,449	$ 18	$ 11,015	$ 15	$ 23,497
Labor cost of present service	39	1	49	1	90
Financial cost	905	1	808	1	1,715
Actuarial gain or loss on the obligation	567	1	543	(3)	1,108
Payments made	(814)	(1)	(526)	-	(1,341)
Present value of the DBO at December 31, 2020	$ 13,146	$ 20	$ 11,889	$ 14	$ 25,069

	2019				
	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Defined benefit obligation (DBO)					
Present value of the DBO at January 1, 2019	$ 10,813	$ 18	$ 9,334	$ 19	$ 20,184
Labor cost of present service	42	1	49	1	93
Financial cost	931	1	811	1	1,744
Actuarial gain or loss on the obligation	1,467	4	1,391	(6)	2,856
Payments made	(804)	(6)	(570)	-	(1,380)
Present value of the DBO at December 31, 2019	$ 12,449	$ 18	$ 11,015	$ 15	$ 23,497

Plan assets are recognized at their fair value and the changes are as follows:

	2020				
	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Changes in fair value of plan assets (PA)					
Fair value of PA at January 1, 2020	$ 13,074	$ 10	$ 8,870	-	$ 21,954
Expected return on PA	1,479	1	1,014	-	2,494
Transfer to PA due to increase in maximum obligation	-	3	419	-	422
Benefits paid	(814)	(1)	(526)	-	(1,341)
Fair value of PA at December 31, 2020	$ 13,739	$ 13	$ 9,777	-	$ 23,529

	2019				
	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Changes in fair value of plan assets (PA)					
Fair value of PA at January 01, 2019	$ 12,043	$ 16	$ 8,495	-	$ 20,554
Expected return on PA	1,435	-	945	-	2,380
Contributions of the Institution	-	-	-	-	-
Transfer to PA due to increase in maximum obligation	400	-	-	-	400
Benefits paid	(804)	(6)	(570)	-	(1,380)
Fair value of PA at December 31, 2019	$ 13,074	$ 10	$ 8,870	-	$ 21,954

The Expected return on PA is determined based on the flow of expected payments reached with the value of the duration of instruments without risk at terms of 3, 5, 10, 20, and 30 years. A curve of rates is obtained on the horizon of expected payments by applying the "Nelson-Siegel" parametric model. An equivalent rate is obtained at the end.

As of December 31, 2020, the Institution made ordinary contributions for $422, while, for fiscal year 2019, no ordinary contributions were made under this plan.

At December 31, 2020, either directly or in a repo, 37% of the total plan assets are invested in governmental debt securities and savings protection bonds in 2020 (34% in December 2019). 21% in 2020 (21% in December 2019) are invested in debt securities issued by the development bank and other entities of the public sector, and 42% in 2020 (45% in December 2019) are invested in debt securities issued by states and municipalities, companies of the private sector with a high credit rating, mutual funds and equity mutual funds. At December 31, 2020, the term of the investments fluctuates between 4 days and 51 days, whereas the term fluctuated between 2 and 51 years in 2019.

At December 31, 2020 and 2019, the return on these investments amounted to $1,457 and $1,525, respectively.

Annual information relative to the different defined benefit obligations corresponding to 2020 and of the last four years is presented below:

	2020	2019	2018	2017	2016
Pensions at December 31:					
Defined benefit obligation, DBO	$ (13,146)	$ (12,449)	$ (10,813)	$ (11,079)	$ (11,939)
Fair value of plan assets, PA	13,739	13,074	12,043	12,277	11,809
Funded status	$ 593	$ 625	$ 1,230	$ 1,198	$ (130)
Seniority premium at December 31:					
Defined benefit obligation, DBO	$ (20)	$ (18)	$ (18)	$ (21)	$ (20)
Fair value of plan assets, PA	13	10	16	19	20
Funded status	$ (7)	$ (8)	$ (2)	$ (2)	$ -
Other benefits at retirement:					
Defined benefit obligation, DBO	$ (11,889)	$ (11,015)	$ (9,334)	$ (9,235)	$ (7,931)
Fair value of plan assets, PA	9,777	8,870	8,495	8,031	7,641
Funded status	$ (2,112)	$ (2,145)	$ (839)	$ (1,204)	$ (290)
Termination benefits:					
Defined benefit obligation, DBO	$ (14)	$ (15)	$ (19)	$ (19)	$ (19)
Funded status	$ (14)	$ (15)	$ (19)	$ (19)	$ (19)

The period for amortizing the different outstanding items with regard to the remaining average labor life of workers is presented below:

	2020	2019
Seniority premium	4	5
Pension plan	19	5
Other benefits at retirement	19	22
Indemnifications	4	4

The rates used at December 31, 2020 and 2019 in the actuarial study were as follows:

	2020	2019
Long-term inflation	3.50%	3.50%
Discount rate	7.00%	7.50%
Rate of expected salary increase	4.02%	4.02%
Expected rate of return on plan assets	7.00%	7.50%
Long-term average inflation rate	6.60%	6.60%

At December 31, 2020, with regard to accrued retirement benefit obligations arising from medical attention costs, the effect of increasing the rate half a percentage point, which is used of the cost of other benefits considering that the remaining assumptions do not change, amounted to $12,661 ($11,662 in 2019). The effect for reducing half a percentage point in the same assumptions would amount to $10,942 ($10,164 in 2019).

- **Defined contribution pension plan**

The Institution has an irrevocable trust fund to cover these obligations. The contributions of the Institution to the new Plan are made bi-weekly and they are equivalent to 10% of the salary of the worker in the terms defined in the CGT and 50% of the contributions made voluntarily by the worker, applicable up to 5% of the salary referred to above.

A reconciliation between the DBO and PA at December 31, 2020 and 2019, with the liabilities recognized in the balance sheets at those dates is presented below:

	2020				
	Other benefits at retirement	Termination benefits	Seniority premium	Death benefits	Total
Provisions for:					
Defined Benefit Obligations (DBO)	$ (134)	$ (119)	$ (14)	$ (34)	$ (301)
Fair value of plan assets (PA)	432	-	5	26	463
Plan assets insufficient	298	(119)	(9)	(8)	162
Actuarial gains (loss)	(2)	-	-	-	(2)
Projected net asset (liability) recognized in the balance sheet (Note 16)	$ 296	$ (119)	$ (9)	$ (8)	$ 160

	2019				
	Other benefits at retirement	Termination benefits	Seniority premium	Death benefits	Total
Provisions for:					
Defined Benefit Obligations (DBO)	$ (105)	$ (98)	$ (9)	$ (27)	$ (239)
Fair value of plan assets (PA)	341	-	3	23	367
Plan assets insuficientes	236	(98)	(6)	(4)	128
Actuarial gains (loss)	(3)	2	-	-	(1)
Projected net asset (liability) recognized in the balance sheet (Note 16)	$ 233	$ (96)	$ (6)	$ (4)	$ 127

The summary of the net cost for the period ended December 31, 2020 and 2019 is shown below:

	2020				
	Death benefit	Seniority premium	Other benefits at retirement	Termination benefits	Total
Summary of net cost of the period 2020:					
Labor cost of present service	$ 10	$ 2	$ 26	$ 29	$ 67
Prior labor service cost	-	-	-	-	
Financial cost	1	1	8	7	17
Expected return on plan assets	(1)	-	(26)	-	(27)
Actuarial (gain) loss, net	(2)	-	(9)	3	(8)
Net cost for the period	$ 8	$ 3	$ (1)	$ 39	$ 49

	2019				
	Death benefit	Seniority premium	Other benefits at retirement	Termination benefits	Total
Summary of net cost of the period 2019:					
Labor cost of present service	$ 9	$ 2	$ 11	$ 22	$ 44
Prior labor service cost	-	-	-	-	-
Financial cost	2	1	6	7	16
Expected return on plan assets	(2)	-	(26)	-	(28)
Actuarial (gain) loss, net	(1)	-	(10)	7	(4)
Net cost for the period	$ 8	$ 3	$ (19)	$ 36	$ 28

The Expected return on PA is determined based on the flow of expected payments reached with the value of the duration of instruments without risk at terms of 3, 5, 10, 20, and 30 years. A curve of rates is obtained on the horizon of expected payments by applying the "Nelson-Siegel" parametric model. An equivalent rate is obtained at the end.

As of December 31, 2020, the Institution made ordinary contributions amounting to $53, whereas no ordinary contributions were made under this plan for fiscal 2019.

As of December 31, 2020, either directly or in a repo, 40% of the total plan assets are invested in governmental debt securities and savings protection bonds in 2020 (34% in 2019). 18% in 2020 (14% in 2019) are invested in debt securities issued by the development bank and other entities of the public sector, and 42% in 2020 (52% in 2019) is invested in debt securities issued by states and municipalities, companies of the private sector with a high credit rating, mutual funds and equity securities. As of December 31, 2020, the term of the investments fluctuates between 4 days and 51 years, whereas the term fluctuated between 2 days and 51 years in 2019.

The real return on these investments at December 31, 2020 and 2019 amounts to $55 and $50, respectively.

At December 31, 2020, with regard to accrued retirement benefit obligations arising from medical attention costs, the effect of increasing the rate half a percentage point, which is used of the cost of other benefits considering that the remaining assumptions do not change, would amount to $160 ($132 in 2019). The effect for reducing half a percentage point in the same assumptions would amount to $113 ($89 in 2019).

22. Commitments and contingent liabilities

a. Operating lease

The Institution has operating lease agreements, in which the Ministry of Public Office, through the Institute of Administration and Appraisals of National Assets (INDAABIN-Spanish acronym) sets forth the contracting criteria annually.

Rents paid at December 31, 2020 and 2019 amounted to $24 and $18, respectively.

b. Lawsuits and complaints

As of December 31, 2020 and 2019, the institution is a defendant in some labor, labor, and commercial lawsuits, of which there were outlays of funds in two cases for 2020 and six cases for 2019, in an amount of $8 in both fiscal years.

c. Contingent assets and liabilities

At December 31, 2020 and 2019, contingent assets and liabilities are summarized as follows:

	2020	2019
Loan guarantees	$ 13,128	$ 13,365
Lines of contingent credit	37,719	23,512
Receivables on claims	563	543
	$ 51,410	$ 37,420

d. Credit commitments

At December 31, 2020 and 2019, the credit lines not exercised by clients of the Institution amount to $39,168 and $38,354, respectively.

e. Reviews (audits) by tax authorities

Banobras is in the process of being reviewed by the Tax Administration Service in connection with the compliance of its tax obligations for the period extending from January 1 up to December 31, 2015, based on currently enacted tax legislation. That legislation sets out that the tax authorities have the power to review up to five tax years prior to the last tax return filed, which could generate differences arising from the distinct interpretation criteria of tax legislation between the Institution and those tax authorities.

23. Stockholders' Equity

a. Capital stock

As of December 31, 2020 and 2019, the capital stock is made up of Certificates of Equity Contribution (CAP's) of series "A" and "B", with expression of the nominal value of one peso, as indicated below:

	2020	2019
Serie "A" CAP´s	10,802,605,034	9,357,545,917
Serie "B" CAP´s	5,564,978,351	4,820,553,957
	16,367,583,385	14,178,099,874

As of December 31, 2020 and 2019, the paid share capital amounts to $19,793 and $17,604, respectively.

	2020		2019	
	Historical	Restated	Historical	Restated
Common fixed capital stock:				
Series "A" CAPs	$ 13,200	$ 15,461	$ 13,200	$ 15,461
Series "B" CAPs	6,800	7,965	6,800	7,965
	20,000	23,426	20,000	23,426
Unissued common fixed capital stock:				
Series "A" CAPs	2,398	2,398	3,843	3,843
Series "B" CAPs	1,235	1,235	1,979	1,979
	3,633	3,633	5,822	5,822
Issued capital stock	$ 16,367	$ 19,793	$ 14,178	$ 17,604

* The sums and some amounts can vary due to rounding-off effects.

b. Capital movements

On December 31, 2020 and December 30, 2019, the Institution received the amount of $6,000 and $5,743, respectively, from the Federal Government through the SHCP, as a contribution for future capital increases for its subsequent formalization and increase in paid-in capital stock.

On April 28, 2020, the contribution for future capital increases received by the Institution in the amount of $7,585 on November 28, 2018 was capitalized in order to be as follows:

Year	No CAPs	Nominal value	Capital Stock*	CAPs subscription value	Premium on subscription of CAPs
Series "A"	1,445,059,117	1	$ 1,445	2.46428733	$ 3,561
Series "B"	744,424,393	1	744	2.46428733	1,834
TOTAL	2,189,483,511		$ 2,189		$ 5,395

* The sums and some amounts can vary due to rounding-off effects.

As of December 31, 2019, no contributions were capitalized for future capital increases.

c. Restrictions on stockholders' equity

Subscription of CAPS

Series "A" CAPS may only be subscribed by the Federal Government, through the issue of a unique security, without coupons, nontransferable, and at no time may its nature or rights conferred to the Federal Government be change. Series "B" CAPS may be subscribed by the Federal Government, state and municipality governments, and by Mexican individuals and legal entities, in strict compliance with the provisions of article 33 of the Credit Institutions Law.

Legal reserve

In accordance with the Internal Regulations of the Institution, its Regulations, and Credit Institutions Law, 10% of the net income of every fiscal year should be separated to create and increase the legal reserve until that reserve is equivalent to paid-in capital stock. The reserve may not be disposed of to pay dividends or for any other purpose, except for capitalization. At December 31, 2020 and 2019, the legal reserve amounts to $3,682 and $3,247, respectively, which is presented in the caption of Capital reserves of stockholders' equity

Other reserve

At December 31, 2020 and 2019, the Institution has created another capital reserve that amounts to $1,970, in both fiscal years.

d. Availability of earnings

The Mexican Income Tax Law sets forth that dividends drawn against earnings that have paid corporate Income Tax will not be subject to the payment of that tax. Toward that end, taxable income should be controlled through the Net Taxable Income Account (CUFIN, its acronym in Spanish). Dividends paid that exceed the CUFIN balance will be subject to the payment of Income Tax in the terms of currently enacted legislation at the date on which dividends are distributed.

The Income Tax Law sets forth that legal entities must carry a paid-in capital account (CUCA, its acronym in Spanish) that will be increased by capital contributions, net premiums on subscribed for shares made by stockholders, and they will be reduced by capital decreases carried out. The balance of that account should be restated for inflation occurring in Mexico at each fiscal year end, and when capital contributions or decreases are made.

In conformity with the Income Tax Law, the amount of a capital decrease will not be subject to income tax when that reduction does not exceed the CUCA balance. The difference will be considered a distributed earning, which determines the tax assessed at the applicable rate on the date of the decrease, in conformity with the procedure provided for in the currently enacted Income Tax Law.

At December 31, 2020 and 2019, the balances of tax accounts are summarized as follows:

	2020	2019
CUCA (Restated Paid-in Capital Account)	$ 68,085	$ 60,189
CUFIN (Net Taxable Income Account)	15,564	15,093

e. Capitalization ratio (unaudited information)

At December 2020-month end, Banobras estimates that net capital with regard to assets subject to a credit risk was placed at 26.33% and at 17.11%[1], with regard to assets subject to total risks. Those ratios were 27.10% and 18.20%, respectively, at December 2019-year end.

The summary of the capitalization ratio at December 31, 2020 and 2019 is as follows:

	2020		**2019**	
Millions of Mexican pesos and %	**Credit ratio**	**Total ratios**	**Credit ratio**	**Total ratios**
Basic capital	25.73	16.72	26.50	17.80
Supplementary capital	0.60	0.39	0.60	0.40
Net capital	**26.33**	**17.11**	**27.10**	**18.20**
Assets at risk	264,049	406,404	235,954	351,212

* The sums and some amounts can vary due to rounding-off effects.

f. Summary of net capital (unaudited information)

At December 31, 2020 and 2019, Banobras estimates that net capital amounted to $69,520 and $63,935 million of Mexican pesos[2], respectively. The amount of basic and complementary net capital is itemized below:

[1] In the process of validation by Bank of Mexico.

	2020	2019
Stockholders' Equity	$ 68,023	$ 62,648
Less:		
Investments in stock of financial entities	7	7
Investments in stock of non-financial entities	36	36
Intangibles and deferred expenses or costs	64	79
Gain or loss on valuation of cash flow hedging instruments	(24)	4
Other assets that are reduced	-	-
Basic capital	67,941	62,523
General preventive reserves for credit risks	1,579	1,412
Supplementary capital	1,579	1,412
Net capital	$ 69,520	$ 63,935

* The sums and some amounts can vary due to rounding-off effects.

g. Assets at risk (unaudited information)

At December 31, 2020, Banobras estimates that total assets at risk amounted to $406,404 million of Mexican pesos, of which 65.0% comprised assets at credit risk.

The evolution between December 31, 2020 and 2019 of assets at market and credit risk is shown below:

Assets at market risk at December 31, 2020

Item	**Amount of equivalent positions**	**Capital requirement**
Transactions in Mexican pesos at a nominal rate	$ 86,157	$ 6,893
Trades with debt securities in Mexican pesos with a surcharge and a reviewable rate	13,053	1,044
Transactions in Mexican pesos at a real rate or denominated in UDIS or UMAS	8,618	689
Transactions in foreign currency at a nominal rate	4,815	385
Positions in UDIS or with a return based on the NCPI	32	3
Foreign exchange positions or with a yield indexed to the exchange rate	3,895	312
Positions in shares with a return indexed to the price of a share of group of shares	135	11
	$ 116,705	$ 9,336

Assets at market risk at December 31, 2019

Item	**Amount of equivalent positions**	**Requirement Increases**
Transactions in Mexican pesos at a nominal rate	$ 62,631	$ 5,010
Trades with debt securities in Mexican pesos with a surcharge and a reviewable rate	14,255	1,140
Transactions in Mexican pesos at a real rate or denominated in UDIS or UMAS	7,297	584
Transactions in foreign currency at a nominal rate	3,005	240
Positions in UDIS or with a return based on the NCPI	17	1
Foreign exchange positions or with a yield indexed to the exchange rate	3,463	277
Positions in shares with a return indexed to the price of a share of group of shares	135	11
	$ 90,803	$ 7,264

Assets at credit risk under the Standard Method at December 31, 2020

Item	Risk weighted Assets	Capital requirement
Group II (weighted al 0%)	$ -	$ -
Group II (weighted al 20%)	42	3
Group III (weighted al 20%)	12,782	1,023
Group III (weighted al 50%)	2	-
Group III (weighted al 100%)	1	-
Group III (weighted al 120%)	3	-
Group IV (weighted al 20%)	2,163	173
Group V (weighted al 20%)	30,043	2,403
Group V (weighted al 50%)	40,837	3,267
Group V (weighted al 115%)	1,247	100
Group V (weighted al 150%)	5,725	458
Group VI (weighted al 100%)	2,374	190
Group VII_A (weighted al 20%)	10,285	823
Group VII_A (weighted al 50%)	4,534	363
Group VII_A (weighted al 100%)	133,649	10,692
Group VII_A (weighted al 150%)	101	8
Group VII_B (weighted al 20%)	4,536	363
Group VII_B (weighted al 100%)	5,839	467
Group VIII (weighted al 115%)	21	2
Group IX (weighted al 100%)	6,355	508
Group X (weighted al 1250%)	-	-
Securitizations with a Risk 1 Rating (weighted al 20%)	1,445	116
Securitizations with a Risk 2 Rating (weighted al 50%)	319	25
Securitizations with a Risk 3 Rating (weighted al 100%)	1,747	140
	$ 264,049	$ 21,124

Assets at credit risk under the Standard Method at December 31, 2019

Item	Risk weighted Assets	Capital requirement
Group II (weighted at 0%)	$ 1	$ -
Group II (weighted at 20%)	50	4
Group III (weighted at 20%)	10,585	847
Group III (weighted at 50%)	-	-
Group III (weighted at 100%)	7	1
Group IV (weighted at 20%)	3,350	268
Group V (weighted at 20%)	26,159	2,093
Group V (weighted at 50%)	32,748	2,620
Group V (weighted at 115%)	1,148	92
Group V (weighted at 150%)	5,297	424
Group VI (weighted at 100%)	2,338	187
Group VII_A (weighted at 20%)	6,828	546
Group VII_A (weighted at 50%)	3,788	303
Group VII_A (weighted at 100%)	126,574	10,126
Group VII_B (weighted at 20%)	3,081	247
Group VII_B (weighted at 100%)	4,496	360
Group VIII (weighted at 115%)	24	2
Group IX (weighted at 100%)	6,306	505
Group X (weighted at 1250%)	-	-
Securitizations with a Risk 1 Rating (weighted at 20%)	1,300	104
Securitizations with a Risk 2 Rating (weighted at 50%)	250	20
Securitizations with a Risk 3 Rating (weighted at 100%)	1624	130
	$ 235,954	$ 18,876

* The sums and some amounts can vary due to rounding-off effects.

h. Evaluation of variations in interest income, and in economic value (unaudited information)

Banobras presents a 2.42% increase in the Economic Value of Capital in the quarter, due primarily to the increase in the portfolio. The Economic Value of capital increased 7.9% in the year, due mainly to the increase in positions in the Balance sheet and the decrease in rates during the year. Banco de Mexico decreased the benchmark rate to 4.25% during the year, due to the stabilization of inflation and little economic growth. Moreover, as of December month end, Stockholders' Equity presented a 2.69% increase with regard to September 2020, and a 4.96% increase with regard to the closing of the prior year.

It is important to note that the loan portfolio, financial guarantees (FG), formerly known as Guarantees of Timely Payment, as well as the funding and risk mitigation structure through OTC derivatives, are the elements that have the highest impact on the financial margin and risk of the Balance Sheet of Banobras. OTC derivatives are specifically highlighted by the Extinguishing Cross Currency Swap that has an associated contingency due to its extinction clause, which is recognized at an accounting level, and it is valued through a methodology approved by the CAIR.

Based on the interest rate risk management methodology of the balance sheet and liquidity risk, the Economic Value of Capital was calculated with regard to stockholders' equity at December 2020-month end, which decreased 0.45% with regard to September 2020, and it decreased 4.84% with regard to December 2019.

The Economic Value of Capital considers an adjustment for credit risk, due to the expected loss of economic value of the portfolio, derivatives, and negotiable instruments that represented 8.75% this quarter, with regard to the economic value of capital, that is, it decreased 0.02% in the quarter and Increase 4.41% with regard to December 2019. The Increase in the proportion is explained mainly by the increase in the economic value, due to the decrease in rates. On the other hand, the expected loss of economic value of the portfolio with regard to its economic value, that is, PEc/VEc represents 1.79%, in comparison with 1.81% of the prior quarter, and 1.88% of the prior year. That expected loss considers the estimate of credit risk in each one of the flows receivable from the portfolio at present value.

To know the sensitivity of the balance sheet to movements in interest rates, a 30% unfavorable movement was simulated in interest rates, with which a potential 2.91% unrealized loss was estimated in the Economic Value of Capital as of 2020 year end. This amount placed at 3.17% in September, and it was 3.94% one year ago. The foregoing indicates that given the balance sheet of the date in question, a 30% unfavorable movement at a level of rates would generate a 2.91% unrealized loss with regard to future cash flows receivable and deliverable at present value.

The DGAP (duration gap) as of December 2020 month end was 0.15 years, similar to that calculated in September 2020, and higher than the 0.08 years calculated in December 2019. The increase observed in the year is explained by the changes in the composition of the balance sheet. The growth of the loan portfolio contributed to the increase in the DGAP of the balance sheet in the quarter. The positive sign of the DGAP indicates that the Economic Value of Capital of Banobras is sensitive to increases in interest rates.

Descriptive statistics of the main credit and market risk exposure metrics are presented below:

	2020				2019
	dec-20	nov-20	oct-20	sep-20	dec-19
Sensitivity in EV of capital at 30%	-2.91%	-3.17%	-3.03%	-3.17%	-3.94%
EL/EV of Capital	8.75%	8.38%	8.68%	8.66%	8.39%
ELC/EVC	1.79%	1.72%	1.73%	1.81%	1.88%
DGAP (years)	0.15	0.14	0.14	0.15	0.08

VE: Economic Value
PE: Expected Loss of the economic value of capital
PE_C: Expected Loss of the economic value of the Portfolio
VE_C: Economic Value of the Portfolio
DGAP: Duration of the Balance Sheet

24. Comprehensive income

For the fiscal years ended December 31, 2020 and 2019, comprehensive income is summarized as follows:

	2020	2019
Net income	$ 660	$ 4,354
Gain or loss on valuation of available-for-sale securities	(1,170)	63
Gain or loss on valuation of cash flow hedging instruments	(27)	(62)
Remeasurements for defined employee benefits	(87)	(2,503)
Comprehensive income	$ (624)	$ 1,852

25. Segment information

The activities that comprise the operation of the Institution are identified in the following segments:

a)	Financial agent of the Federal Government.	Credit transactions with proceeds from international financial agencies and those carried out under the Mandate concept in which the Institution acts for account and by order of the Federal Government itself under the terms and specific conditions set out by the SHCP, as well as the applicable standards according to the source of proceeds.
b)	First-tier credit transaction	Financing is granted directly or via guarantees to the states and municipal governments, their agencies and trusts, as well as to the private sector for carrying out projects and infrastructure and public service works. Those granted to financial brokers are also included, which represent 5.6% of the total loan portfolio.
c)	Treasury and investment bank operations	Operations whereby the Institution participates for its own account and as a complementary support for its clientele on money markets (repos on debt securities), foreign exchange market (buy and sell of currency), derivative financial instruments trading (for trading purposes, and custody of securities. Moreover, they are considered investments in securities and cash and cash equivalents generated by banking activity.
d)	Trustee services and technical assistance	Due to the trust, the trustor (Federal Government, states, municipal governments, their agencies, and trusts, as well as the private sector) allocate certain assets toward a determined legal purpose, by delegating the realization of that purpose to a trustee institution or bank.
e)	Other operating income (expenses)	Activities oriented to support the states, municipal governments, their agencies and trusts, as well as the private sector, through specialized sectoral assistance, advisory services for financial strengthening, evaluation, and investment project structuring, etc., in order to best channel investments for the development of infrastructure and public services of the country.

At December 31, 2020 and 2019, operating income, as well as the reconciliation with the statement of income for each segment are shown below:

	2020						
Prior	Financial Agent of the Federal Government (a)	First-tier credit transaction (b)	Treasury and investment bank operations (c)	Trustee services (d)	Technical assistance	Others	Total
Interest income							
cash and cash equivalents	-	-	$ 551	-	-	-	$ 551
Investments and memorandum accounts	-	-	23,654	-	-	-	23,654
Repos trading	-	-	1,482	-	-	-	1,482
Loan portfolio	$ 1	$ 32,328	-	-	-	-	32,329
Gain or valuation of UDIS	-	-	-	-	-	-	
Commissions on the initial granting of loans	-	370	-	-	-	-	370
Dividends of net equity instruments	-	-	4	-	-	-	4
	1	32,698	25,691	-	-	-	58,390
Interest expenses							
Interbank loans and from other agencies	1	995	-	-	-	-	996
Deposit funding	-	22,619	1,182	-	-	-	23,801
Repos trading	-	-	21,354	-	-	-	21,354
Loss in changes due to valuation	-	257	-	-	-	-	257
	1	23,871	22,536	-	-	-	46,408
Financial margin	-	8,827	3,155	-	-	-	11,982
Allowance for loan losses	-	783	-	-	-	-	783
Financial margin adjusted by credit risks	-	8,044	3,155	-	-	-	11,199
Commissions and fees collected	-	550	34	$ 419	$ 14	-	1,017
Commissions and fees paid	-	43	39	-	-	-	82
Intermediation income:							
Valuation of derivative financial instruments and items attributable to the hedged risk	-	461	-	-	-	-	461
Buy and sell of securities	-	-	167	-	-	-	167
Foreign exchange transactions	-	-	13	-	-	-	13
Derivative Financial trading	-	-	(91)	-	-	-	(91)
Interest on derivative financial trading operations	-	-	528	-	-	-	528
Valuation of derivative financial instruments for trading purposes	-	-	869	-	-	-	869
Valuation of securities	-	-	(50)	-	-	-	(50)
Total result from intermediation	-	461	1,436	-	-	-	1,897
Other operating income (expenses)	-	70	-	1	5	$ (11,421)	(11,345)
Administration and promotion expenses	1	797	73	249	17	1,494	2,631
Operating income	(1)	8,285	4,513	171	2	(12,915)	55
Caused income tax							
Deferred taxes on earnings (net)	-	-	-	-	-	(605)	(605)
Total taxes	-	-	-	-	-	(605)	(605)
Earnings (loss) before discontinued operations	(1)	8,285	4,513	171	2	(12,310)	660
Discontinued operations	-	-	-	-	-	-	-
Net income (loss)	$ (1)	$ 8,285	$ 4,513	$ 171	$ 2	$ (12,310)	$ 660

Prior	2019 Financial Agent of the Federal Government (a)	First-tier credit transaction (b)	Treasury and investment bank operations (c)	Trustee services (d)	Technical assistance	Others	Total
Interest income							
cash and cash equivalents	-	-	$ 1,037	-	-	-	$ 1,037
Investments and memorandum accounts	-	-	31,080	-	-	-	31,080
Repos trading	-	-	4,831	-	-	-	4,831
Loan portfolio	$ 14	$ 40,850	-	-	-	-	40,864
Gain or valuation of UDIS	-	-	-	-	-	-	-
Commissions on the initial granting of loans	-	302	-	-	-	-	302
Dividends of net equity instruments	-	-	17	-	-	-	17
	14	41,152	36,965	-	-	-	78,131
Interest expenses							
Interbank loans and from other agencies	8	1,512	-	-	-	-	1,520
Deposit funding	-	30,497	1,183	-	-	-	31,680
Repos trading	-	-	32,420	-	-	-	32,420
Loss in changes due to valuation	-	342	-	-	-	-	342
	8	32,351	33,603	-	-	-	65,962
Financial margin	6	8,801	3,362	-	-	-	12,169
Allowance for loan losses	-	244	-	-	-	-	244
Financial margin adjusted by credit risks	6	8,557	3,362	-	-	-	11,925
Commissions and fees collected	1	602	7	$ 420	$ 38	-	1,068
Commissions and fees paid	-	17	39	-	-	-	56
Intermediation income:							
Valuation of derivative financial instruments and items attributable to the hedged risk	-	186	-	-	-	-	186
Buy and sell of securities	-	-	107	-	-	-	107
Foreign exchange transactions	-	-	82	-	-	-	82
Derivative Financial trading	-	-	(32)	-	-	-	(32)
Interest on derivative financial trading operations	-	-	377	-	-	-	377
Valuation of derivative financial instruments for trading purposes	-	-	1,251	-	-	-	1,251
Valuation of securities	-	-	839	-	-	-	839
Total result from intermediation	-	186	2,624	-	-	-	2,810
Other operating income (expenses)	-	(25)	-	9	22	$ (8,219)	(8,213)
Administration and promotion expenses	3	918	126	304	16	1,354	2,721
Operating income	4	8,385	5,828	125	44	(9,573)	4,813
Caused income tax	-	-	-	-	-	582	582
Deferred taxes on earnings (net)	-	-	-	-	-	(123)	(123)
Total taxes	-	-	-	-	-	459	459
Earnings (loss) before discontinued operations	4	8,385	5,828	125	44	(10,032)	4,354
Discontinued operations	-	-	-	-	-	-	-
Net income (loss)	$ 4	$ 8,385	$ 5,828	$ 125	$ 44	$ (10,032)	$ 4,354

(a) At December 31, 2020, both assets and liabilities as a Financial Agent of the Federal Government amount to $516 and $511 ($498 at December 31, 2019). For the year ended December 31, 2020, cash flows of assets and liabilities as a Financial Agent of the Federal Government amount to $18 and $13, respectively ($83 and $82 at December 31, 2019).

(b) At December 31, 2020, assets and liabilities for first-tier credit transactions consist of $504,083 and $447,750, respectively ($443,821 and $395,213 at December 31, 2019). At December 31, 2020, cash flows of assets and liabilities for first-tier credit transactions consist of $60,262 and $52,537, respectively ($10,171 and $4,085 at December 31, 2019).

(c) Assets and liabilities relative to treasury securities trading in investments, cash and cash equivalents, securities, repos, and derivatives trading at December 31, 2020 are comprised of $447,797 and $439,394 respectively ($434,039 and $426,935 at December 31, 2019). As of December 31, 2020, cash flows are comprised of $13,758 and $12,459, respectively ($41,093 and $39,820 as of December 31, 2019).

26. Financial margin

For the years ended December 31, 2020 and 2019, the summary of financial margin, which is presented in the statement of income, is as follows:

Financial margin	2020 Local currency and UDIS	2020 Foreign currency	2020 Total
Interest income:			
Interest from cash and cash equivalents	$ 551	-	$ 551
Interest and yields from collateral furnished	848	-	848
Interest and yields from investments in securities (a)	22,614	$ 192	22,806
Interest on performing loan portfolio (b)	30,823	1,505	32,328
Interest on nonperforming loan portfolio	-	1	1
Commissions on the initial granting of loans (c)	316	54	370
Interest and yields in repurchase agreement transactions (d)	1,482	-	1,482
Dividends from net equity instruments	-	4	4
	56,634	1,756	58,390
Interest expenses:			
Interest on Time deposit (e)	19,297	27	19,324
Interest on debt securities issued (e)	3,059	236	3,295
Interbank loans and other agencies (f)	596	400	996
Interest and yields in repurchase agreement transactions (g)	21,342	11	21,353
Discount on debt placement (e)	1,183	-	1,183
Loss due to changes in valuation	247	10	257
	45,724	684	46,408
Financial margin	$ 10,910	$ 1,072	$ 11,982

Financial margin	2019 Local currency and UDIS	2019 Foreign currency	2019 Total
Interest income:			
Interest from cash and cash equivalents	$ 1,034	$ 3	$ 1,037
Interest and yields from collateral furnished	234	-	234
Interest and yields from investments in securities (a)	30,675	173	30,848
Interest on performing loan portfolio (b)	38,887	1,962	40,849
Interest on nonperforming loan portfolio	-	13	13
Commissions on the initial granting of loans (c)	253	49	302
Interest and yields in repurchase agreement transactions (d)	4,831	-	4,831
Dividends from net equity instruments	-	17	17
	75,914	2,217	78,131
Interest expenses:			
Interest on Time deposit (e)	26,217	90	26,307
Interest on debt securities issued (e)	3,983	207	4,190
Interbank loans and other agencies (f)	829	691	1,520
Interest and yields in repurchase agreement transactions (g)	32,363	57	32,420
Discount on debt placement (e)	1,183	-	1,183
Loss due to changes in valuation	159	183	342
	64,734	1,228	65,962
Financial margin	$ 11,180	$ 989	$ 12,169

(a) Interest on each one of the categories of investments in securities are summarized as follows:

	2020	2019
Trading securities	$ 20,823	$ 28,404
Available-for-sale securities	1,100	951
Held-to-maturity securities	834	1,160
Interest on hedging transactions	49	333
	$ 22,806	$ 30,848

(b) Interest on the performing loan portfolio is summarized as follows:

	2020	2019
Commercial credits:		
Business or commercial activity	$ 11,118	$ 12,453
Financial entities	1,769	2,415
Governmental entities	20,232	24,893
Housing credit		
Medium class and residential	6	6
Loans granted as an Agent of the Federal Government	14	14
Interest on hedging transactions	(811)	1,068
	$ 32,328	$ 40,849

As of December 31, 2020 and 2019, the interest on past due loan portfolio corresponds entirely to Loans with business or commercial activity for $1 and $13, respectively.

(c) The commissions on the initial granting of loans are summarized as follows:

	2020	2019
Commercial credits:		
Business or commercial activity	$ 286	$ 246
Financial entities	6	6
Governmental entities	78	50
	$ 370	$ 302

(d) At December 31, 2020 and 2019, interest earned in repurchase transactions repos amounts to $1,482 and $4,831, respectively.

(e) Interest on deposit funding is summarized as follows:

	2020	2019
Interest on Time deposit	$ 20,437	$ 26,103
Interest on debt securities issued	2,708	3,763
Discount on debt placement	1,183	1,183
Interest on hedging transactions	(526)	631
	$ 23,802	$ 31,680

(f) Interest on interbank loans and from other agencies are summarized as follows:

	2020	2019
International agencies	$ 512	$ 814
Call Money	157	108
Loans from financial institutions	29	124
Banxico Auctions	192	336
Cost of hedge (FOAEM)	11	16
Interest on hedging transactions	95	122
	$ 996	$ 1,520

(g) Interest payable in repurchase transactions repos are summarized as follows:

	2020	2019
Governmental debt	$ 20,314	$ 31,267
Bank debt	1,039	1,153
	$ 21,353	$ 32,420

27. Intermediation income

For the years ended December 31, 2020 and 2019, it is summarized as follows:

	2020	2019
Gain or loss on valuation at fair value		
Trading securities	$ (49)	$ 839
Valuation of derivative financial instruments and items attributable to the hedged risk (1)	1,329	1,436
Derivative financial instruments for trading purposes	528	377
	1,857	1,813
Gain or loss on buying and selling:		
Swap transactions	167	107
Derivative trading	(91)	(32)
	76	75
Foreign currency	13	83
	$ 1,897	$ 2,810

(1) The offsetting of changes in fair value recognized in the Intermediation income in the statement of income of hedge derivatives and hedged positions is summarized below:

	2020	2019
(Loss) gain on changes in the valuation of hedging instruments	$ (5,330)	$ (6,570)
Gain (loss) on changes in the valuation of hedged items	5,791	6,756
	$ 461	$ 186

28. Other operating income (expenses)

At December 31, 2020 and 2019, this caption is summarized as follows:

	2020	2019
Public use taxes in benefit of the Federal Government (1)	$ (11,500)	$ (8,307)
Interest on loans to personnel	77	78
Recoveries	93	55
For advisory services, technical assistance	5	22
Other operating income	3	22
Allowance for uncollectible or doubtful accounts	(23)	(83)
	$ (11,345)	$ (8,213)

(1) Pursuant to the Federal Revenues Act and Rules of Operation of the SHCP, the SHCP instructs the Institution to pay public use taxes for furnishing the sovereign guarantee of the Federal Government.

A payment was made amounting to $11,500 in fiscal 2020, (Official Letter 368.-141/2020 dated December 17, 2020), whereas payments were made amounting to $800 and $7,507 in fiscal 2019 (Official Letters 368.-032/2019 and 368.-197/2019 dated March 11 and December 30, 2019, respectively).

29. Assets placed in trust or legal custody

At December 31, 2020 and 2019, Assets placed in trust or mandate are summarized as follows:

	2020	2019
Trust deeds	$ 18	$ 17
Management trusts	480,605	459,197
	480,623	459,214
Pension plan trusts	24,491	22,741
Mandates	9,328	9,316
Total assets placed in trust or legal custody	$ 514,442	$ 491,271

The institution's revenues from its trustee activities at December 31, 2020 and 2019 amounted to $419 and $420, respectively.

30. Assets in custody or administration

At December 31, 2020 and 2019, Assets in custody or administration are summarized as follows:

	2020	2019
Securities in custody and administration (a)	$ 275,066	$ 325,783
Guarantees received by the Institution (b)	-	29
Others	6	6
	$ 275,072	$ 325,818

a. Securities in custody and administration

At December 31, 2020 and 2019, balances of assets in custody and administration are summarized as follows:

	2020		2019	
	Securities	Fair Value	Securities	Fair Value
PRLV	161,034,683,850	$ 141,616	171,052,878,989	$ 145,686
BPAS	4,560,636,728	10,601	4,086,356,483	10,963
BONDES	633,178,711	63,210	1,087,034,170	108,886
Certificates of deposit	102,543,325	10,273	130,499,204	13,121
Securities exchange certificates	151,864,642	19,156	149,483,997	17,939
CEBIC	1,868,226	1,348	1,868,226	1,288
BPAGT	160,862,746	16,082	32,718,773	3,299
BPAG	5,222,959	520	33,585,012	3,362
CETES	82,999,370	808	2,000,000	19
Fixed rate bonds	14,035,422	1,626	106,716,462	11,015
UDIBONOS	3,228,117	2,412	3,242,000	2,164
Debt securities	-	-	580	728
EUROBONDS	10,000	100	10,000	100
	166,751,134,096	267,752	176,686,393,896	318,570
Shares	3,795,366,891	7,314	4,297,928,665	7,213
	170,546,500,987	$ 275,066	180,984,322,561	$ 325,783

b. Guarantees received by the Institution

At December 31, 2020, the Institution did not received guarantees for repurchase transactions repos, whereas it received guarantees for $29.

At December 31, 2020 and 2019, revenues from custody and administration services amounts to $7.

31. Collateral in repurchase transactions repos

At December 31, 2020 and 2019, collateral in repurchase transactions repos shown in memorandum accounts are as follows (at fair value):

	2020	2019
Collateral received by the entity (1)	$ 4,387	$ 37,379
Collateral received and sold or furnished as a guarantee by the entity (2)	$ 4,387	$ 33,626

(1) The securities pursuant to these trades are bank and government securities, which were received and delivered as collateral in repurchase agreements repos (Note 8), which are summarized as follows (at fair value):

	2020	2019
Fixed rate bonds		$ 9,993
BPAS		899
BONDES	$ 2,443	11,100
CETES	600	300
CEBIC	494	495
BPAG28	-	2,455
BPAG91	600	11,887
UDIBONOS	250	250
	$ 4,387	$ 37,379

(2) Collateral received and sold or furnished as a guarantee by the Institution are summarized as follows:

	2020	2019
Fixed rate bonds		$ 9,993
CEBIC	$ 494	495
CETES	600	-
BONDES	2,443	8,646
BPAS	-	899
BPAG28	-	2,302
BPAG91	600	11,041
UDIBONOS	250	250
	$ 4,387	$ 33,626

32. Other memorandum accounts

At December 31, 2020 and 2019, balances of Other memorandum accounts are summarized as follows:

	2020	2019
Amounts contracted with derivative financial instruments	$ 695,806	$ 600,969
Induced credit:		
Guarantees amount guaranteed	13,128	13,365
No Guarantees amount not guaranteed	61,349	59,712
Contingent lines amount guaranteed	30	28
Contingent lines amount not guaranteed	276	288
Refinancing guaranteed	2,464	2,195
Guarantees by endorsement executed	597	1,132
Borrowing credit lines not yet drawn down	5,511	7,130
Uncollectible credits applied against the preventive estimate for loan risks	782	781
Other memorandum accounts	26,646	17,609
	$ 806,589	$ 703,209

33. Comprehensive risk management (unaudited information)

In conformity with the regulatory requirements of the National Banking and Securities Commission (CNBV), relative to the disclosure of the policies and procedures established by credit institutions for comprehensive risk management, the measures that have been implemented by Banobras management, as well as the corresponding quantitative information are presented below.

Objective of Comprehensive Risk Management

The objective of comprehensive risk management at Banobras is to identify, analyze, measure, oversee, limit, control, disclose, and treat the distinct risks to which the Institution is exposed in its operation, in order to protect its capital, by applying mitigation strategies and the integration of the risk culture in the daily operation, and establish mechanisms that enable it to carry out its activities with risk levels in accordance with its desired risk profile, net capital, and operating capacity.

Structure and organization of the function for Comprehensive Risk Management

The Board of Directors has created a Comprehensive Risk Management Committee (CAIR), whose objective is to manage risks to which the Institution is exposed and oversee that transactions carried out are adjusted to the desired risk profile, the Framework for comprehensive risk management, as well as the overall risk exposure limits approved by the Board of Directors.

Board of Directors

The Board of Directors, among the duties, approves and reviews the following at least once a year: i) the Desired risk profile of the Institution; ii) the Framework for comprehensive risk management; iii) levels of liquidity and capitalization with regard to its objectives and strategic plan; iv) the contingency financing play; and v) the overall risk exposure limits by type of risk and the mechanisms for carrying out corrective actions.

In addition, the Board must oversee the implementation of the strategy of Comprehensive Risk Management.

Comprehensive Risk Management Committee (CAIR)

The CAIR is the subcommittee to which the Board of Directors delegates the responsibility of risk management of the Institution.

This Subcommittee has attributions on the overall risk management of the Institution, whether they are recorded in or outside of the balance sheet and on the control of market risks, credit, liquidity, operating and unquantifiable risks.

The CAIR is presided over by the Chief Executive Officer and it is comprised of: i) at least one member of the Board; ii) at least an independent risk expert appointed by the Board; iii) the Chief Executive Officer; iv) the person responsible of the unit for comprehensive risk management; v) the person responsible for the internal audit duty of the Institution; and vi) the persons who are invited for that purpose, who may participate with the right to speak, but not to vote.

The duties of the CAIR are governed by the General Provisions applicable to Credit Institutions (Provisions) issued by the CNBV.

Associate General Directorate of Risk Management

The Associate General Directorate of Risk Management (DGAAR-Spanish acronym) supports the General Administrative Office, the CAIR, and the Board of Directors in the comprehensive risk management process to contribute to preserve the capital of the Institution and sustainability of the operation.

The DGAAR and its officers are independent at both a functional and organizational level of the business areas to avoid conflicts of interest and assure an appropriate separation of responsibilities.

Systems

The DGAAR has different systems and applications that facilitate the measurement, oversight, and control of the risks to which the Institution is exposed. They generate the corresponding reports and they have backup and control mechanisms that allow for the recovery of date from the systems used in risk management and valuation models.

The systems and applications that the DGAAR has are described in the sections corresponding to each type of risk.

Hedging policies and/or risk mitigation

Banobras operates with derivative financial instruments on over-the-counter-markets to hedge:

- Risks created by liabilities when such liabilities are in rates, exchange rates, and/or terms that differ from the assets to which capital is going to be allocated.

- Risks created by assets when such liabilities are in rates, exchange rates, and/or terms that differ from the liabilities which fund that position.

- The interest rate and/or currency to clients of Banobras as a tool for strengthening its credit structure in the terms in which it is authorized by the distinct government agencies of the governance of Banobras.

- The balance sheet of Banobras and/or improve the costs of funding structurally, by taking advantage of the prevailing conditions on financial markets.

Strategies and processes for overseeing the ongoing hedge effectiveness or risk mitigators

The *"Methodology for measuring hedge effectiveness in derivative financial instruments"* allows for quantifying the effectiveness with which derivative financial instruments mitigate or hedge the risk arising from its hedged items or primary positions. Hedge effectiveness reflects the degree in which the changes in fair value of a primary position or hedged item subject to risk factors are reversed or offset by the changes in the behavior of the instrument designated as a hedge.

The "Policies and procedures for measuring hedge effectiveness in derivative financial products" set forth the duties and responsibilities of the areas involved in the calculation and follow-up on hedge effectiveness with financial instruments contracted by Banobras, the criteria that is to be observed, as well as the motors or calculation tools and corresponding reports.

In addition, individual limits and specific limits are established for counterparty risk for limiting the concentration of hedges accepted. The mark-to-market of positions in favor of the Institutions are considered for financial derivatives trading.

Derivative collateral management

Banobras has derivatives trading portfolios with counterparties that include financial and non-financial institutions. For trading, it has contracts that allow for trading collateral.

The main collateral by amount is maintained with financial counterparties, especially Full Service Banking.

That collateral includes the following assets:

- Cash: MXN and USD
- National government securities denominated in MXN

Given the type of collateral, the measurement of concentration of hedges accepted does not apply.

Collateral assets are managed through the Ikos Guarantees system that contains the contractual parameters for each counterparty. It keeps the balance of each collateral and it calculates the margin calls daily, in accordance with the specific parameters applicable to each collateral.

For currency collateral, it is not necessary to value the balance thereof. Securities collateral is valued by using the price of the respective governmental value contained in the vector of the authorized price vendors. The processes for collateral management discussed above are described in the *Procedures Manual for Trading with Collateral*.

a) Credit risk

Banobras has an overall limit and specific credit risk exposure limits by line of business that must be aligned with the desired risk profile.

The overall limit measures the maximum credit risk exposure which Banobras is willing to assume, and it is determined by the sum of specific credit risk exposure limits. Specific credit risk exposure limits are determined for each group of possible creditworthy persons, including counterparties, considering the desired risk profile of the Institution, which is based on the target level of the capitalization ratio.

The limits described above are established by considering: i) an efficient allocation of capital; ii) the creditworthiness of borrowers; iii) current and potential capitalization requirements arising from new placements; and iv) net capital of the Institution.

In addition, maximum indebtedness limits (MIL) are established to control and measure credit risk individually, which are determined for each one of the operations in which Banobras participates. The risks corresponding to counterparty risk are included in those limits.

For purposes of granting credit, and financial guarantees, a risk premium is included in the credit rates associated with the operation of the Institution. Moreover, the estimate of the total loss is calculated in the VaR of the credit of the portfolio.

Concentration of Risk is controlled by establishing concentration and common risk limits, in accordance with the Provisions. Moreover, the charge of capital necessary is obtained to cover the expected loss that could be faced by Banobras due to the concentration of its private sector portfolio, financial brokers, productive state enterprises and companies.

Methodologies, Policies, and Procedures and Systems or Applications

i) **Maximum Indebtedness Limits (MIL)** Each methodology determines the MIL under a prudential criterion and through a quantitative and qualitative evaluation. The quantitative evaluation is based on the analysis of flows, financial statements, and creditworthiness, as well as the net financing ceiling in the case of MIL_{eym}. The qualitative evaluation considers the analysis of various variables inherent of each line of business, among them, the ratings issued by rating agencies (when there is the practice of rating on the market), which serves to weight the results of the quantitative analysis. Limits are determined for: (I) states, FIMEM, and municipalities; (ii) water operating agencies; (iii) credits with own source of payment; (iv) companies; (v) financial brokers and non-financial counterparties (full service banking, foreign banking, multilateral banks, development banking, brokerage firms, multiple purpose financial institutions, bonding companies, insurance companies, state-owned productive enterprises, entities of the Federal Public Administration; and (vi) investment portfolio instruments. Weighting factors are considered for the determination of limits, which are obtained beginning with the Methodology for the determination of weighting factors by period and rating of the maximum indebtedness limits and risk indicators, in which the procedure for obtaining risk indicators is also included for following up on the credits granted to States and FIMEM, as well as borrowers of the private sector. Moreover, information of the probability of nonperformance obtained beginning with internal models is considered for the determination of MIL, which are documented in the Comprehensive Risk Management Manual of the Institution.

In addition, there is a methodology for determining the resources to be placed in a trust of states and municipalities, which incorporates financial variables in its determination that consider the level of resources to be placed in a trust and their volatility, as well as the profile of payments committed under conditions of stress.

To limit the credit risk of the counterparty of financial brokers, borrowers with their own source of payment, as well as states and municipalities, there are online controls and systems.

In addition, there is a system developed for applying the methodology for determining the indebtedness limit for financial brokers (MILINT) authorized by the CAIR. It further provides the necessary information for monthly and quarterly risk reports.

Operating tolerances (thresholds) have been established contractually with regard to financial counterparties with which derivative financial trading has been agreed upon, so that if the market value of the operations portfolio exceeds that limit favorably for the Institution, it is received in cash guarantee and/or highly liquid instruments.

The follow-up on counterparty risk includes exposure with financial brokers and mark-to-market of positions in benefit of the Institution are considered for financial derivatives trading. Moreover, there are counterparty limits for Investment Portfolio Instruments that are subject to credit risk.

The "Policies and procedures for credit risk management" set out the policies and procedures for the determination of the overall, specific, and operating limits (MIL) of credit risk, including counterparty risk, as well as for timely follow-up on the creditworthiness ratings assigned by rating agencies.

ii) Calculation methodology of premiums and risk considerations. Methodology for obtaining risk premiums for credits, financial guarantees, guaranteed refinancing, and contingent lines of credit granted by Banobras. Premiums and considerations include the collection of the expected loss, concentration risk, as well as a cost for not reviewing surcharges depending upon the product.

The expected loss is determined by the probability of nonperformance and the severity of the loss by type of borrower, various discount curves by rating, as well as actions to mitigate credit risk such as the existence of guarantees by endorsement, guarantors or additional sources of payment. The premium on concentration depends on the individual charge of capital for concentration set out in the "Methodology for loan portfolio risk management".

In addition, policies and procedures are established for the calculation of risk premiums in the "Policies and procedures for individual credit risk management". And there is a system for calculating credit risk premiums and financial guarantees.

iii) Methodology for the calculation of the valuation adjustment on credit risk (CVA). Methodology for the calculation of credit risk for financial instruments under which the possible potential loss is estimated of financial operations in reference to the credit risk, which is calculated as the probability of nonperformance on the expected exposure of the set of financial operations of each counterparty. As well as the corresponding stress scenarios.

In addition, it incorporates the procedures for the calculation of Expected Positive exposure (EPE) to establish which are of a growing nature and the calculation of Wrong Way Risk (WWR), which measures possible adverse correlations between exposure and creditworthiness.

Policies and procedures for the calculation the CVA of are set out in the document "Policies and procedures for credit risk management".

iv) Methodology for the determination of the limits and metrics of the desired risk profile of credit risk exposure. Methodology for determining the structure of specific limits and the overall limit of credit risk exposure, as well as the criteria for the redistribution of limits and for the estimation of normal limits and consumption of limits. The methodology is included for estimating the desired risk profile and restriction level for credit risk metrics on capital consumption, seeking to complement the limit structure with regard to the composition of portfolios.

v) **Methodology for loan portfolio risk management.** The credit VaR indicates the unexpected major loss that could be observed in a portfolio (loan portfolio, financial instruments or investment portfolio) in a quarterly time horizon, with a 99% level of confidence.

The expected loss is the means of distribution of losses and gains, that is, it indicates an average of how much can be lost, and it is associated with the preventive reserves of the Institution against credit risks for the loan portfolio. The unexpected loss is the loss above the expected loss. The VaR in Banobras considers both the expected loss and the unexpected loss.

The methodology and the system are based on the Credimetrics model, which were appropriate for incorporating the essential characteristics of the main borrowers of Banobras (state governments, municipalities, and project with their own source of payment), as well as their correlations and recovery rates. Sensitivity tests are included for the analysis to determine the strength of capital in dealing with distinct scenarios in the creditworthiness of the borrowers of the portfolio, including extreme and systemic scenarios.

The portfolio concentration analysis is carried out at a consolidated level, by geographic region, institutional program and state. The calculation of portfolio concentration ratios is carried out to follow-up on concentration risk and its relationship with the value at risk and sufficiency of capital. Moreover, the concentration ratio is obtained for those positions that are of the balance sheet of the institution (memorandum accounts). These concentration ratios correspond to the inverse of the Herfindahl-Hirschman ratio(IHH), with which the number of debtors is measured that proportionately have a higher value of the portfolio, as well as the Adjusted Diversification Ratio (IAD) that takes into account the number of elements in the Portfolio and which, therefore, is comparable between portfolios. In addition, the method is defined for calculating the charge of capital required to cover the loss that could be faced by Banobras for the concentration of its portfolio.

The policies and procedures established for determining the concentration of risk are carried out based on the guidelines set forth in the Provisions and information furnished by clients through the forms for detecting common risk in operations. These are documented in the: "Policies and procedures for loan portfolio risk management".

There is an application at Banobras for calculating the credit value at risk (credit VaR) and portfolio concentration ratio by line of business, geographic region, level of risk, and consolidated level, in conformity with the methodology currently approved by the CAIR.

In addition, there is an application for the identification of Common Risk, which manages the information necessary to identify this type of risk in credit operations, based on the information recorded in the business areas.

vi) **Loan Portfolio Rating Methods based on the General Provisions Applicable to Credit Institutions.** Preventive estimates for credit risks[1] are determined by applying the general methodology for rating the loan portfolio set forth in the General Provisions applicable to lending institutions (Provisions), published by the National Banking and Securities Commission (CNBV). Moreover, additional estimates are created recognized by the CNBV to cover risks that are not provided for in the Provisions.

The portfolio subject to rating as described in subsection XXIX, article 1° and article 110 of the Provisions consists of direct or contingent credits granted to states, municipalities, and their decentralized agencies, which correspond to investment projects with their own source of payment, financing of individuals/legal entities with business activity and financial entities. In turn, it includes guarantees furnished to state or municipal governments and legal entities with business activity. Some financing charged to the Federal Government are provided for in conformity with Article 112. Moreover, considering the Provisions referred to above, the risk level risk is determined of the consumer or mortgage credit portfolio payable by former employees.

[1]It refers to the constitution of preventive reserves, for past due interests and for trial expenses.

b) **Market risk**

For monitoring, and controlling market risk exposure, Banobras has a market risk limit structure for each one of its operating desks and/or lines of business, which must be aligned with the desired risk profile of Banobras on a consolidated basis.

Operating desks (*Front Office*) are free to structure business and portfolios in their investment/operating policies, by considering the structure of market risk exposure limits.

The limit structure consists of: i) overall market risk exposure, which is set out for the consolidated position of the Institution; ii) specific market risk exposure limits set out for each operating desk and/or line of business; iii) concentration limits that are intended to control the amount traded of determined instruments or financial assets; and iv) trader limits that are set forth to delimit risk exposure in carrying out financial operations that are assigned in accordance with the level of responsibility of the traders and type of operation.

Methodologies, Policies, and Procedures and Systems or Applications

i) **Market value at risk (VaR).** The VaR is an estimate of the expected loss on a time horizon and with a given level of confidence. Market risk is calculated by applying the Conditional VaR methodology (CVaR), with a time horizon of one business day, a window of 500 data and a 97% confidence level, which is described in the *"Methodology for the calculation of market risk at value (VaR).*

The calculations of CVaR are obtained for each one of the operating desks (money market, currencies, and derivatives), which consolidate the position of Banobras. That calculation considers securities classified as trading, repurchase transactions repos, as well as for securities and derivative instruments classified as for trading.

For the valuation of market instruments and derivative instruments in the portfolios of Banobras, the Institution has the *"Methodology for valuation of market instruments in Mexico"*, and the *"Methodology for the valuation of derivative instruments"*, which allow for knowing the interest rate risk the valuation of instruments that form part of its investment portfolios.

In addition, the estimates of the market CVaR are compared with the theoretical losses and gains (caused only by movements in market variables) with daily data and for the period of the model data window. That seeks to calibrate, if deemed necessary, the models used or modify the assumptions of the market VaR calculation. These retrospective tests ("backtesting") are carried out monthly, and they are presented to the Board of Directors of the Institution every quarter.

The estimated Conditional VaR for the held-to-maturity position is informative, since they are not considered in the consumptions of the overall limit, nor specific of the operating desk.

The overall limit control and specific market risk limits is carried out by using the Conditional VaR method.

ii) **Extreme scenarios and Market risk sensitivity tests.** The models and parameters are described in the "Methodology for determining extreme scenarios and credit risk sensitivity tests", which allow for analyzing the relevant risk factors of the portfolio of Banobras to identify extreme scenarios or stress and sensitivity tests that have a major impact on their valuation.

iii) **Methodology for estimating the replacement value of financial transactions.** The methodology is used for estimating the replacement value of the financial instruments of the portfolio in a future time, in the event that the counterparties should fail to meet their obligations with Banobras.

The Institution has the "Policies and procedures for market risk management", as well as the "Operating Framework for the Investment Portfolio" for the identification, measurement, and market risk monitoring.

The market CVaR calculation of operating desks, sensitivity tests, and extreme scenarios are carried out daily, as well as the control of limits, which are reported to the General Offices, the person responsible for Internal Auditing, and the persons responsible for the business units.

There is a system at the Bank that seeks to calculate the market VaR of operating desks (money market desks, foreign exchange (FX) desks, derivatives desk) at a consolidated level, sensitivity and stress tests, as well as the calculation and follow-up on the effectiveness of derivative instruments designated as hedges.

c) Liquidity risk

Liquidity gaps of Banobras are calculated periodically to monitor liquidity risk arising from the difference between asset and liability flows of the Institution.

On the other hand, Banobras is considered as the low risk issuer on the market, since it has the guarantee of the Federal Government on its liabilities. Toward that end, the possibility that the Institution may face liquidity problems is low. However, the Institution has a Contingency Financing Plan that determines the strategies, policies, and policies to follow in the event that unexpected liquidity requirements or problems for liquidating assets should arise.

Moreover, an indicator structure has been established to monitor and control liquidity risk exposure.

Methodologies, Policies, and Procedures and Systems or Applications

i) Liquidity risk management. Liquidity risk implies the loss of ability to meet present and future cash flow needs that affect the daily operation or financial conditions of the Institution. This potential loss is measured and controlled at Banobras through models and indicators contained in the *"Interest rate risk management methodology of the balance sheet and liquidity risks"*, which include asset and liability management basis, maturity gas, accounting, flows and repricing, liquidity indicators, and the gap Break-even indicator.

The Break-even gap estimates the point in time at which the flows of assets and liabilities are equal, reflect the moment in time at which asset flows are sufficient to settle liability flows. This indicator can be calculated for any type of flow gap and it is intended to observe the behavior of flows and make business decisions based on this point.

The flow gap is determined monthly to identify the risks of concentration of flows of asset and liability money at distinct periods to which Banobras is exposed, as well as to determine capital requirements.

The projection of these flows is carried out based on the implied market rates, and the algebraic sum is realized between credit and borrowing positions to determine the liquidity gap and know the amount that should be refinanced or invested per period.

The following is considered to calculate this flow gap: the loan portfolio, money market positions, proprietary issues, interbank loans, and derivative financial instruments.

On the other hand, an indicator structure was established for monitoring and controlling liquidity risk exposure, and there are "contingency" and "follow-up" indicators. The contingency financing plan will be activated in the event that the levels established for contingency indicators fail to perform.

In addition, the calculation model is determined for the liquidity risk premium that reflects the additional cost that must be charged for granting financing to cover the liquidity risk caused by the difference between the financing term and the target funding term.

Policies and procedures for managing liquidity risk are set out in the document *"Policies and procedures for Liquidity Risk Management"*.

ii) **Methodology for determining extreme scenarios and liquidity and liquidity risk sensitivity and economic value of capital.** It is used to calculating stress scenarios of risk factors generated by liquidity and interest rate risk. The effect in dealing with a stress situation in financial income, the total cost of funding, interest rates, liquidity gaps, the economic value of capital, and the liquidity ratio of Banobras is intended to be analyzed through scenarios.

There is an application for calculating the liquidity gap of the Institution every month, by book, term, and by type of currency, in conformity with the methodology currently approved by the CAIR.

Moreover, the identification, measurement and monitoring of this type of risk, as well as the application of extreme scenarios and liquidity risk sensitivity tests are set out in the *"Policies and procedures for liquidity risk management"*.

d) Asset and Liability Management (ALM)

Asset and Liability Management (ALM) provides an overall vision of risks, by integrating and measuring them through the economic value of capital.

The ALM sets out the manner in which risk factors of the Balance Sheet can be stressed, as well as how scenarios can be analyzed with regard to the behavior of the composition of the portfolio, funding strategies, liquidity, and interest rate levels to evaluate the implications in creditworthiness and strength of the Economic value of the Capital of the Bank. In the international framework, the Basil Committee recommends simulating stress scenarios as a good practice, including extreme and systemic type scenarios to measure the effect thereof in the risk of the balance sheet.

Methodologies, Policies, and Procedures and Systems or Applications

i) **Interest rate risk management methodology of the balance sheet and liquidity risks.** The models are documented in the methodology that allow for measuring the potential loss in the economic value of capital through the VaR of economic value of capital, with a time horizon of one month, a window of 500 data, and a 99% confidence level, and the impact on its financial margin arising from changes in interest rates and the composition by portfolio rating. In addition, it allows for knowing the impact of credit and borrowing positions at different terms through different liquidity and market risk measurements, which must be analyzed jointly.

The ALM analysis through calculation motors that have been developed to be implemented allows for calculating the economic value of the capital of Banobras and their financial margin, and identifying the risk factors that are a factor thereon. The economic value is adjusted by credit risk, since it considers the expected loss of the portfolio in all its term, as well as the contribution of derivatives and trading securities.

In addition, it is a useful tool for measuring the impact of the operating strategy of the balance sheet to improve the use of capital, as well as contributing to maximizing the risk adjusted return.

The ALM analysis is carried out by monitoring the risk of all operations of the Balance Sheet of Banobras, including the loan portfolio, funding, and hedges. It allows for quantifying the payment behavior of borrowers (credit risk) through simulation techniques and tools, as well as the added value of business strategies (for example: changes in the funding structure and the hedging with derivatives strategy).

The results of the model are calibrated and reported to the CAIR and Board of Directors quarterly. The Institution has an application that allows for valuing credit and borrowing positions of the balance sheet, by respecting parameterization and assumptions defined for each position approved by the Risk Management Committee.

This application consists of modules, which homologate and integrate mark-to-market metrics, economic value of capital, VaR of the economic value of capital, DGAP of duration, sensitivity, and stress scenarios.

Policies for identifying, measuring, and monitoring this type of risk are documented in the *"Policies and procedures for liquidity risk management"*.

e) Operating risk

Operating risk management seeks to reduce the potential loss due to failures or deficiencies in internal controls, errors in processing and storing operations or in the transmission of information, as well as for adverse administrative and judicial resolutions, frauds or thefts. In addition to considering the operating risk corresponding to new products, start-up of activities, start-up of processes or systems prior to their launching or implementation.

There is an operating risk tolerance level for the analysis and follow-up on events of loss on operating risk. Toward that end, the amount is determined of the loss arising from individual operating risk events or the sum of losses caused by the repetition of the same event.

Operating risk events are recorded in the respective database and they are included in institutional statistics. The occurrence of events that exceed the operating risk tolerance level implies reporting to the Chief Executive Officer, the Assistant General Director of Risks Management (DGA) and the DGA in which the event of loss was reported, as well as the personnel indicated in the Policies and Procedures for Operating Risk management, as well as the Board of Directors, through an operating risk exposure report at their next meeting. The Risk Management Administrative Office asks the responsible areas for additional information on the mitigation actions that have been implemented and are in the process and, if applicable, it may suggest additional actions or mitigation plans.

In addition, there is a metric inside the desired risk profile for following-up on the amount accrued of losses in the year, due to operating risk events.

Methodologies, Policies, and Procedures and Systems or Applications

i) Methodologies for Operating Risk Management. These methodologies allow for estimating the impacts of operating contingencies, the amount of potential losses arising from unfavorable legal or administrative rulings handed down, levels of tolerance of the desired risk profile and operating risk tolerance, as well as the internal operating risk rating, and the classification of information security vulnerabilities.

A Business Impact Analysis (BIA) is performed on operating contingencies, which enables the Institution to determine the criticality thread of subprocesses to define if they should be considered in the Going Concern Plan of Banobras, as well as for estimating the qualitative and quantitative impacts of the operating contingencies associated therewith. Those subprocesses related to the Interbank Electronic Payment System (SPEI-Spanish acronym) of the Bank of Mexico must be included in this analysis. The criticality thread level is defined for each subprocess, whereas the relevance is defined based on the type of impact (financial, regulatory, social/reputational, legal), both of which are based on their own experience.

With regard to the legal risk, Banobras has legal matter collaboration portal, operated by the Associate Juridical Office, and it submits the information to the Operating Risks and Capital Requirements Management, which is required for generating and sending the *"Overall Court Proceedings Portfolio"* regulatory report to the National Banking and Securities Commission. The different legal matters, as well as their follow-up are stored in that database.

In addition, the risk area together with the supporting area in legal risk matters estimate the potential losses associated with possible unfavorable administrative and judicial resolutions handed down in connection with the operations carried out by Banobras.

Finally, an internal operating risk rating is defined that is a self-evaluation measure based on a combination of operating risk events that occurred and the best practices for the report thereof.

Relying on the Common Vulnerability Scoring System (CVSS) was proposed with regard to the quantification of technological vulnerabilities, which sets out metrics for the communication of characteristics, such as criticality, probability of occurrence, and impact of vulnerabilities that affect elements of the information technology security environment.

ii) **Policies and procedures for operating risk management:** They are approved by the CAIR and they establish the framework for managing this type of risks in Banobras, in addition to the following:

- Procedure for identifying and following-up on risks, as well as classifying them in accordance with their frequency and potential economic impact.

- Identification and following-up on key operating risk indicators (KRI), which are statistics and parameters that measure exposure and evolution of an operating risk identified, and having the capacity to alert in dealing with possible changes in exposure thereto. The materialization of operating risk events and consequently the possible associated risks is mitigated by monitoring every KRI.

- The Bank performs internal legal audits at least annually, through an area independent from the Juridical DGA to avoid a possible conflict of interest.

In addition, Banobras has the following elements for managing operating risks:

- Structure and information system for recording operating risk incidents, which considers the provisions of Exhibit 12-A of the General Provisions applicable to Credit Institutions.

- The system is designed for Risk Coordinators by Department or personnel of each Assistant General Office to record those events that imply any effect on operating risk to which the Institution is exposed, which have given rise to either a real or estimated loss, or no loss has been generated.

f) Unquantifiable risks

Unquantifiable risks are those arising from unforeseen events for which a statistical base cannot be drawn up that allows for measuring potential losses. These risks are the strategic risk, the business risk, and the reputational risk.

There are models for identifying and following up on these risks in order to manage them.

Methodologies, Policies, and Procedures and Systems or Applications

i) **Methodologies for non-quantifiable risk management.** The elements considered for strategic and business risk management are documented in this methodology. It further incorporates a follow-up indicator for reputational risk.

ii) **Policies and procedures for non-quantifiable risk management:** They are approved by the CAIR and they establish the framework for managing this type of risks in Banobras, in addition to the Procedure for identifying, recording, mitigating, and following up on non-quantifiable risks.

g) Capital requirements

Consistent with the provisions of the Basel Capital Accords and as part of the risk management process, the regulatory framework with regard to capitalization has been implemented at Banobras to promote the soundness and stability of the Institution. Toward that end, the capital requirement associated with credit, market, and operating risks is determined in conformity with the Provisions every month.

Banobras uses the Standard Method for the credit risk capital requirement, which is referred to in Section Two of Chapter III of Title One Bis of the Provisions. The Basic Indicator Method is used with regard to the capital requirement associated with Operating Risk exposure, also described in the Provisions.

Methodologies, Policies, and Procedures and Systems or Applications

Policies and procedures for determining the capitalization requirements of Banobras: The policies and procedures are documented for determining the capitalization requirements of Banobras, as well as the process for compiling and sending the respective forms to Banco de Mexico.

For the calculation of the credit risk requirement, the Institution uses the ratings furnished by the following rating agencies: Standard & Poor's, Fitch Ratings, Moody's, HR Ratings de Mexico, Verum, A.M. Best Rating Services and DBRS. Those rating institutions are used for all credit operations, credit lines, Timely Payment of Guaranties, derivatives, and securities trading of the Institution, in accordance with the Standard Method. It is important to note that Banobras does not allocate public issue ratings to comparable assets.

Banobras uses offsetting mechanisms for derivatives trading whey they are carried out with the same counterparty, provided that those offsets are set forth in the framework agreement.

The results of the capital requirement are reported monthly to the CAIR and quarterly to the Board of Directors, through the Quarterly Report on risk exposure assumed by Banobras.

As part of the process for the determination of capitalization requirements the Risk area uses a system from which RC forms are generated with their respective validation, which are submitted to the Banco de Mexico.

h) Money Laundering (ML) and Terrorism Financing (FT) Risks

The General Provisions (DCG-Spanish acronym) referred to in Article 115 of the Credit Institutions Law consider that credit institutions (LIC) use a Risk Based Approach (EBR) for evaluating Money laundering (ML) and Terrorism Financing (FT) risks and applying the mitigators thereto, in order to prevent them from being used for carrying out operations with proceeds of illicit origin and financing terrorism.

The EBR includes the risk evaluation of the client, which is used for determining the degree of risk in order to add coherence between this model and the EBR.

i) Methodologies, Policies, and Procedures and Systems or Applications

Methodology for client risk evaluation: The risk evaluation model is documented in this methodology for determining the degree of risk of clients, through the following risk factor identification processes, Risk measurement, and Customer rating system.

The degree of risk allocated to each client determines the activation of actions documented in the Client Identification Policies that are contained in the *"Policies and Procedures Manual for Money Laundering and Financing Terrorism Prevention"*.

QUANTITATIVE INFORMATION[1]

a) Credit risk

The Amount Exposed of the portfolio presented in the following chart considers the Portfolio of States, Municipalities and Agencies, Public Trusts, and Decentralized Federal Government Agency, State-Owned Productive Companies, Projects with Own Source of Payment, Companies and Counterparty Risk.

[1]Except as indicated otherwise and in conformity with the provisions of the last paragraph of Article 57 of the General Provisions Applicable to Lending Institutions, all references in this section to basic capital or net capital corresponding to the amount at the closing of the fourth quarter of 2020.

Quarter	4th 2020	3rd 2020	2nd 2020	1st 2020	4th 2019
Amount exposed in nominal term[1/]	537,178.4	526,481.7	567,302.3	558,318.2	516,185.3
Amount exposed in capital requirement term[1/,2/]	24,019.8	23,069.6	23,148.9	21,219.8	19,381.1
Overall Consumption Limit[2/, 3/]	87.2%	83.7%	84.0%	77.0%	83.4%

Amounts in millions of Mexican pesos.

1/ It does not include exposure of Mexico City, since it is the Federal Government's portfolio (it amounts to 30 billion 631.4 million pesos in nominal terms for the fourth quarter of 2020, and it amounts to 25 billion 770.1 million pesos in nominal terms for the third quarter of 2020). It includes counterparty risk, which amounts to 79 billion 762.5 million pesos in nominal terms at the fourth quarter of 2020, and 80 billion 566.8 million pesos in the prior quarter).

2/ The Comprehensive Risk Management Committee (CAIR - for its acronym in Spanish), pursuant to resolution 004/2020, approved the "Methodology for the determination of limits and metrics of the desired risk exposure to credit risk profile", which sets out that the follow-up on the consumption of the overall limit and specific limits is carried out with regard to the authorized exposure.
Pursuant to the foregoing, the information presented in the third and fourth quarters of 2019 is calculated with regard to formalized exposure, and figures are generated with regard to authorized exposure beginning the first quarter of 2020.

Moreover, the CAIR, pursuant to resolution 040/2020, dated July 23, 2020, approved the redistribution of the specific limits by line of Business. Moreover, pursuant to resolution 046/2020, dated July 28, 2020, approved the restatement of the "Authorized exposure adjustment factor" and the "Credit Risk Weighting Factors by line of business", which have a bearing on the application of the "Methodology for the determination of limits and metrics of the desired risk exposure to credit risk profile".

3/ The Board of Directors, pursuant to resolution 012/2020, dated March 3, 2020, approved the overall credit risk exposure in terms of capital requirement, which went from 23 billion 252 million pesos up to 27 billions,552.8 million of pesos, which became effective on March 11, 2020.

Beginning the first quarter of 2020, the follow-up on credit risk exposure associated with the Bank's operations is generated with regard to authorized exposure. It is important to note that the overall limit and specific limits by Line of business were authorized by the Board of Directors, pursuant to resolution 012/2020, dated March 3, 2020, which became effective on March 11, 2020.

However, the foregoing will continue to report credit exposure in nominal terms, as set out in the *"Methodology for the determination of limits and metrics of the desired risk exposure to credit risk profile"*. It is important to note that the results reported in nominal terms are only of an indicative nature, in order to offer a reference to the Business areas in the estimate of the placement potential and follow-up on exposure.

The average exposure in nominal terms from the third quarter of 2020 to the fourth quarter of 2020 amounts to 560 billion 030.8 million pesos, considering the exposure of Mexico City. The exposure of Mexico City is not considered, insofar as it is an Exempted Portfolio. The average exposure in nominal terms from the third quarter of 2020 to the fourth quarter of 2020 would amount to 531 billion 830 million pesos.

In the fourth quarter of 2020, a 4.1% increase was recorded in the consumption of the overall limit in terms of capital requirement with regard to the third quarter of 2020, by placing at 87.2% (83.7% in the prior quarter). Moreover, an increase was recorded in formalized exposure in nominal terms amounting to 10 billion 696.7 million pesos, with regard to the prior quarter. The changes are primarily due to the increase in authorized exposure with Commercial Credits, States and Municipalities and with the Counterparty, as well as the decrease in authorized exposure with State Owned Productive Companies and Trusts of the Federal Government, Investment Portfolio and Agencies, in addition to portfolio movements and exchange rate volatility.

In addition, the average exposure between 2019 closing and 2020 closing amounts to 553 billion 338.8 million pesos, considering the exposure of Mexico City. If the exposure of Mexico City is not considered, insofar as it is an Exempted Portfolio, the average exposure from 2019 closing and at 2020 closing would amount to 526 billion 681.8 million pesos.

At 2020 fiscal year end, a 4.6% increase was recorded in the consumption of the overall limit in terms of capital requirement with regard to the 2019 closing, and placed at 87.2% (83.4% of the prior year), due to granting financing to projects with their Own Source of Financing and States and Municipalities, as well as movements of portfolio and exchange rate volatility.

Credit VaR

In order to have an overall perspective of the commercial credit portfolio risk, the Value at Credit Risk (VaR) is determined which allows for estimating the maximum potential loss of the portfolio that the Bank could face, due to the possible of the impairment of the creditworthiness of the portfolio, in a quarterly time interval with a 99% level of confidence. As of the 3rd quarter of 2020, the credit VaR with correlation is presented, so the previous figures are not comparable.

As of the 4th quarter of 2020, the loan VaR of the portfolio is 19 billions 639.5 million pesos, which represents 29.0% of the net capital as of September 2020.

Item	4th Quarter 20	3rd Quarter 20	2nd Quarter 20	1st Quarter 20	4th Quarter 19	μ*	σ*
Expected Loss	11,520.3	11,002.8	11,423.6	11,670.4	10,947.9	11,313.0	321.1
Unexpected loss	8,119.2	8,762.3	8,066.7	7,222.1	7,027.0	7,839.5	711.1
Credit VaR	19,639.5	19,765.1	19,490.3	18,892.5	17,974.9	19,152.5	738.4
Net capital a)	67,769.7	65,170.6	61,268.7	63,935.3	63,073.4	64,243.5	2,429.4
Preventive reserves	11,284.3	11,162.3	11,100.4	11,036.0	10,358.9	10,988.4	363.6
Portfolio exposed to credit risk b)	438,145.3	423,801.5	430,860.2	414,694.0	400,619.6	421,624.1	14,596.3
Credit VaR/Net capital	29.0%	30.3%	31.8%	29.5%	28.5%	29.8%	1.3%
Credit VaR/Portfolio exposed to risk	4.5%	4.7%	4.5%	4.6%	4.5%	4.5%	0.1%
VaR of Financial Instruments	19.8	22.4	25.8	24.7	6.8	19.9	7.6
Exposure of Financial Instruments c)	65,708.4	68,576.6	430,845.6	433,452.8	412,303.9	282,177.4	196,471.1
VaR of Fin. Inst./Net capital	0.0292%	0.0343%	0.0420%	0.0386%	0.0108%	0.0310%	0.0122%
VaR of Fin. Inst./Exposure of Fin. Inst.	0.0301%	0.0326%	0.0060%	0.0057%	0.0017%	0.0152%	0.0149%

* Metrics corresponding to the last 5 quarters. Amounts in millions of Mexican pesos

a) It considers the net capital of the prior quarter by legal operation of the CNBV, by updating the information validated at the date of this report. b) It is defined as portfolio exposed to risk" or "portfolio exposed to credit risk" to the GEM portfolio, Private, financial brokers and portfolio reserved at 0.5% without including FONADIN, exempted portfolio, nor credits to former employees; Beginning August, zero coupon bonds (BBC - for its acronym in Spanish) are discounted that reduce the exposure of this portfolio for the calculation of the VaR credit. c) Beginning August, the counterparties are included with which repurchase transactions are carried out and the portfolio is not considered as exempted.

During the last five quarters, the average credit VaR is placed at 19 billion 152.5 million Mexican pesos, and it has a standard departure of 738.4 million Mexican pesos, whereas the median in the VaR of financial instruments is 19.9 million Mexican pesos with a standard departure of 7.6 million Mexican pesos. Moreover, the credit VaR as a percentage of net capital has an average of 29.8% and a 1.3% standard departure for the same period. For financial instruments, the median of the percentage with regard to net capital is 0.0310% with a standard departure of 0.0122%.

With regard to the distribution of the portfolio exposed to credit risk without Zero Coupon Bonds (BBC) amounting to 438 billion 145.3 million pesos) by geographic region, as of December 31, 2020, the Central region represents 48.7%, the South region 28.0%, and the North region 23.2%. However, the South zone presents the lowest diversification with a 7.8 ratio vs. 28.4 of the Central region. Moreover the credit VaR ratio of Banobras with regard to the portfolio was placed at 4.5% in the fourth quarter of 2020.

VaR and loan portfolio by geographic region *

	Balance** of portfolio exposed to credit risk						Marginal VaR at 99%		
Region	**Dec-20**	**%**	**Sept-20**	**%**	**Dec-19**	**%**	**Dec-20**	**Sept-20**	**Dec-20**
North	101,682.2	23.2%	98,833.7	23.3%	99,643.5	24.9%	4,166.5	4,123.0	4,498.3
Central	213,578.9	48.7%	202,114.8	47.7%	183,839.2	45.9%	10,780.0	9,658.3	9,075.4
South	122,884.2	28.0%	122,853.0	29.0%	117,136.9	29.2%	8,650.0	9,042.7	8,771.2
Total	438,145.3	100.00%	423,801.5	100.00%	400,619.6	100.0%	19,639.5	19,765.1	17,974.9

*/The sums and some amounts can vary due to rounding-off effects. Amounts in millions of Mexican pesos.
**/As of August, the zero coupon bonds (BCC) that reduce the exposure of this portfolio are discounted for the calculation of the credit VaR.

At December 31, 2020, the net capital of the Institution covers simulated losses including extreme losses, in accordance with the sensitivity tests of the credit VaR performed under distinct extreme scenarios

Loan portfolio diversification

The five main borrowers have a portfolio amounting to 112 billion 226.6 million Mexican pesos (24.8% of the portfolio subject to credit risk), and it represents 1.7 times the basic capital at September.

As of December 2020, 41 borrowers out of a total of 517 account for 78.9% of the balance of the commercial loan portfolio, by discounting zero coupon curve (amounting to 13 billion 485.8 million pesos), which is equivalent to 5.1 times the net capital of Banobras as of September.

No borrower exceeds the concentration limits of the CNBV. Moreover, the three main borrowers subject to concentration limits do not exceed 100% of the basic capital of the Institution, and none of the borrowers subject to the 100% limit of the basic capital exceeds the threshold.

Portfolio Credit Risk

The loan portfolio of Banobras at December 31, 2020 amounted to 547 billion 021.5 million Mexican pesos. 46.4% corresponded to loans charged to state and municipal governments and their agencies, 31.8% to private credits, and 4.3% to financial entities. The total portfolio presents a 13.1% change against what was reported in December 2019 (483 billion 563.4 million pesos).

Main characteristics of the loan portfolio by risk group

Item	Balance Dec20	Balance Dec19	Variation	Reserve Dec20	Reserve Dec19	Variation	VaR Dec20
State and Municipal Governments	**253,656.6**	**219,366.3**	**34,290.4**	**1,964.5**	**1,817.4**	**147.1**	**8,913.3**
Performing	253,656.6	219,366.3	34,290.4	1,964.5	1,817.4	147.1	
Nonperforming	0.0	0.0	0.0	0.0	0.0	0.0	
Impaired	24.1	27.8	-3.7	4.4	5.2	-0.8	
Private	**173,844.6**	**153,229.7**	**20,614.9**	**6,265.0**	**5,298.0**	**967.0**	**13,245.5**
Performing	171,315.2	150,813.5	20,501.7	3,735.5	3,023.3	712.2	
Nonperforming	2,529.5	2,416.3	113.2	2,529.5	2,274.8	254.7	
Impaired	6,808.6	4,812.3	1,996.3	4,660.0	3,672.9	987.1	
Financial Brokers	**23,372.7**	**23,199.3**	**173.3**	**158.5**	**191.9**	**-33.4**	**1,506.7**
Performing	23,372.7	23,199.3	173.3	158.5	191.9	-33.4	
Nonperforming	0.0	0.0	0.0	0.0	0.0	0.0	
Impaired	0.0	0.0	0.0	0.0	0.0	0.0	
APFPYFP	**757.2**	**4,824.3**	**-4,067.1**	**3.8**	**24.2**	**-20.4**	**25.2**
Total concentrated subject to risk	***451,631.1***	***400,619.6***	**51,011.5**	***8,391.8***	***7,331.6***	**1,060.2**	**19,639.5**
Exempted GF portfolio	**60,235.5**	**54,548.0**	**5,687.5**	**0.0**	**0.0**	**0.0**	
Fonadin	**35,000.0**	**28,232.1**	**6,767.9**	**175.0**	**141.2**	**33.8**	
Former employees	**154.9**	**163.7**	**-8.8**	**42.3**	**40.3**	**2.0**	
Performing	100.6	107.2	-6.7	3.1	1.3	1.8	
Nonperforming	54.3	56.5	-2.2	39.2	39.0	0.2	
Impaired	49.1	47.6	1.5	39.7	38.7	1.0	
Total	***547,021.5***	***483,563.4***	***63,458.1***	***8,609.0***	***7,513.0***	***1,096.0***	

During the fourth quarter of 2020, the monthly average of the portfolio was placed at 536 billion 978.2 million Mexican pesos, whereas the average of reserves was placed at 8 billion 523.2 million Mexican pesos.

	Average Balance December 2020	Average Reserves December 2020
States and Municipalities or with their guarantee	216,534.6	1,696.4
Own source of payment	166,944.8	3,930.4
Credits to the Federal Government or with their guarantee	61,560.6	25.0
Contingent credits: Others	47,281.1	323.9
Second tier credits: Full-Service Banking	17,432.7	91.1
Second tier credits: Others	5,960.9	50.6
Decentralized or Regulatory Agencies	17,321.1	124.1
Bank agent credits	525.9	0.0
Commercial Credits: Medium-sized companies	2,233.8	2,233.8
Contingent credits: Guarantees by endorsement	1,026.9	6.1
Housing credit*	145.8	33.1
Consumer credit*	10.1	9.1
Total:	**536,978.2**	**8,523.2**

Amounts in millions of Mexican pesos. */ They correspond to the former employee portfolio

In accordance with the distribution of the remaining term of the portfolio, 63.5% matures in a term between 10 and 20 years, are shown below:

Distribution of balances by remaining term of the portfolio at December 2020

	Remaining term in months							Total
	[0 - 3]	(3 - 6]	(6 - 12]	(12 - 60]	(60 - 120]	(120 - 240]	> 240	
States and Municipalities or with their guarantee	13	18	943	1,257	4,031	172,112	40,626	**219,000**
Decentralized or Regulatory Agencies	97	0	0	928	1,376	21,855	0	**24,256**
Own source of payment	0	5	60	17,538	28,825	108,849	11,105	**166,381**
Commercial Credits: Medium-sized companies	2,177	0	0	0	0	0	0	**2,177**
Contingent credits	50,847	0	0	0	0	0	0	**50,847**
Contingent credits / Guarantees by endorsement	597	0	0	0	0	0	0	**597**
Second tier credits: Full-Service Banking	0	0	116	219	864	16,193	0	**17,392**
Second tier credits: Others	0	0	0	41	776	5,164	0	**5,981**
Credits to the Federal Government or with their guarantee	0	113	0	2,209	31,924	22,517	2,956	**59,719**
Bank agent credits	0	1	0	1	0	514	**0**	**516**
Consumer credit	9	0	0	1	0	0	0	**10**
Housing credit	31	1	1	20	15	78	0	**145**
Totals:	**53,771**	**138**	**1,120**	**22,214**	**67,811**	**347,282**	**54,687**	**547,022**
Percentage of the total	**9.8%**	**0.0%**	**0.2%**	**4.1%**	**12.4%**	**63.5%**	**10.0%**	**100.0%**

Amounts in millions of Mexican pesos.

The distribution of reserves by risk level is shown in the following chart:

Comparison of the distribution of reserves* by risk level

Risk level	Preventive				
	Dec-20	%	Dec-19	%	Δ
A-1	1,693.0	19.7	1,385.8	18.4	***307.2***
A-2	895.7	10.4	690.0	9.2	***205.7***
B-1	20.6	0.2	460.8	6.1	***-440.2***
B-2	234.6	2.7	11.0	0.1	***223.5***
B-3	552.1	6.4	512.4	6.8	***39.8***
C-1	76.1	0.9	91.2	1.2	***-15.1***
C-2	432.7	5.0	645.0	8.6	***-212.4***
D	529.2	6.1	134.3	1.8	***394.9***
E	4,175.0	48.5	3,582.5	47.7	***592.5***
Total	**8,609.0**	**100.0**	**7,513.0**	**100.0**	***1,096.0***

Amounts in millions of pesos.
*/ It neither includes induced credit nor guaranteed refinancing.

The nonperforming commercial portfolio amounts to 2 billion 529.5 million Mexican pesos, and it represents 0.5% of the total portfolio of the Bank, as well as 0.6% of the risk exposed portfolio. During the fourth quarter of 2020, the nonperforming commercial portfolio increased 113.2 million Mexican pesos with regard to the fourth trimester of 2019. Taking into account the nonperforming portfolio of former employees, the nonperforming portfolio amounts to 2 billion 583.8 million Mexican pesos at the closing of the fourth quarter of 2020. With regard to the time that credits remain in the nonperforming portfolio, the 2000-2020 historical average is placed at 17.6 months, whereas it is 39.46% when measured as a proportion of the time in the portfolio.

Those commercial, consumer, and housing loans with a "D" and "E" risk are identified as impaired portfolio. It amounts to 6 billion 881.8 million Mexican pesos at the December 2020 closing.

It can be appreciated that the distribution of the nonperforming portfolio by geographic region is mainly concentrated in the South region with a 73.2% ratio with regard the nonperforming portfolio. It is also observed that 56.1% of the current reserves of the South region is in an impaired state.

**Loan portfolio by geographic region: performing, nonperforming, and impaired *
at December 2020**

Region	Total Balance	Performing			Nonperforming			Impaired			% balance Past Due/Outstanding
		Total	Reserve	% Reserve/Balance	Total	Reserve	% Reserve/Balance	Total	Reserve	% Reserve/Balance	
Central	312,400.2	311,717.5	2,680.5	0.9	682.6	669.6	98.1	2,765.2	1,193.0	43.1	0.22
North	106,619.9	106,611.3	758.3	0.7	8.6	7.3	84.1	179.3	159.5	89.0	0.01
South	128,001.4	126,108.9	2,601.5	2.1	1,892.5	1,891.8	100.0	3,937.3	3,351.6	85.1	1.50
Total	547,021.5	544,437.7	6,040.3	1.1	2,583.8	2,568.7	99.4	6,881.8	4,704.2	68.4	0.47

Amounts in millions of Mexican pesos.
* The sums and some amounts can vary due to rounding-off effects.

The states with the most significant amounts of troubled and past-due portfolio in the fourth quarter are presented.

Impaired portfolio by State without former employees

	December 2020			December 2019		
State	**Total**	**Nonperforming**	**Preventive**	**Total**	**Nonperforming**	**Preventive**
Distrito Federal	2,045.1	0.0	1,459.8	2,160.2	0.0	1,278.2
Veracruz	1,885.8	1,885.8	1,885.8	1,786.9	1,786.9	1,786.9
Oaxaca	2,606.1	520.0	1,042.7	505.8	505.8	364.3
Others	295.7	123.7	276.1	387.3	123.6	248.8
Total	**6,832.7**	**2,529.5**	**4,664.4**	**4,840.1**	**2,416.3**	**3,678.1**

Amounts in millions of Mexican pesos

At December 2020, the total states with an impaired portfolio is 7 (without considering the former employee portfolio), in comparison with 10 of the prior year.

Nonperforming portfolio by State without former employees

State	December 2020 Total	December 2020 Preventive	December 2019 Total	December 2019 Preventive
Veracruz	1,885.80	1,885.80	1,786.86	1,786.86
Others	643.68	643.68	629.42	487.89
Total	**2,529.48**	**2,529.48**	**2,416.27**	**2,274.75**

Amounts in millions of Mexican pesos

During the fourth quarter of 2020, no recoveries of past due loans were carried out and there were no written-off loans.

The changes in balances and provisions of impaired loans presented in their currency of origin allow for isolating the effect of the type of change of the variation of the risk level of this portfolio.

Portfolio	December 2020			December 2019 *			Δ Balance	Δ Reserve
	Opening balance	Total	Reserve	Opening balance	Total	Reserve		
Mexican Pesos	8,113.6	2,588.9	1,984.0	8,262.6	2,795.6	1,775.1	-206.7	208.9
U.S.	224.7	213.2	134.6	113.8	108.4	100.9	104.8	33.8

Amounts in millions of units of the original currency
* The December 2019 figures were reprocessed in February 2020 so they may not coincide with previous reports.

Main financing for own account

At December 31, 2020, the sum of the three main borrowers subject to 100% of the basic capital amounts to 32 billion 385.7 million Mexican pesos, which accounts for 48.9% of the basic capital at the end of the quarter previous.

Moreover, the Institution maintains 23 financings granted in the amount of 376 billion 184.3 million Mexican pesos that exceed 10% of the basic capital and that represent 5.7 times the basic capital of the institution.

Main financing subject to common risk diversification limits

Under no circumstances has any borrower subject to the 100% concentration limit of the basic capital exceeded that limit.

At the fourth quarter of 2020, Banobras had borrowers classified in 14 economic groups and 3 trusts in which there are 39 companies that represent a common risk due to equity or business ties, which aggregately accounted for a concentration equivalent to 97.7% of the basic capital.

Investments in securities

Investments in securities other than government securities that implied a credit risk, which represented more than 5% of the net capital of Banobras at December 2020-month end, are indicated below:

Issuer	Par Value (Millions of pesos)	% With regard to Net Capital
SCOTIABANK	6,046	8.67%
BANCOMER	4,651	6.67%

Net Capital considered amounts to 69 billion 756 million Mexican pesos.

The instruments in position have not presented a deterioration in the credit rating with respect to the previous quarter reported.

b) Market risk

Market value at risk (VaR) at Banobras is calculated by applying the Conditional VaR methodology (CVaR), with a time horizon of one business day, a window of 500 data and a 97% confidence level.

The calculations of CVaR are obtained for each one of the operating desks (Money Market, Currencies, and Derivative Desks), which consolidate the position of Banobras.

The CVaR of Banobras by operating desk, quarter closing, and average of the period, as well as the percentage that represents Net Capital is presented in the following chart:

Portfolio	4th Quarter 2020					3rd Quarter 2020				
	Dec/20	% of Net Capital	Average	% of Net Capital	σ	Sept/20	% of Net Capital	Average	% of Net Capital	σ
Banobras	331.67	0.47%	337.55	0.49%	6.69	334.41	0.49%	332.80	0.51%	1.94
Money Market	174.56	0.25%	183.67	0.27%	10.24	196.31	0.29%	196.76	0.30%	2.27
Exchange Desk	60.02	0.08%	52.94	0.08%	7.22	44.57	0.07%	39.85	0.06%	4.51
Derivatives Trading	14.20	0.02%	14.91	0.02%	0.40	15.93	0.02%	15.65	0.02%	0.44
Structural Derivatives Trading	211.99	0.30%	209.92	0.31%	4.36	206.64	0.30%	204.89	0.31%	1.66
Derivatives Trading Rec.	-	-	-	-	-	-	-	-	-	-

In comparison with the same quarter of 2019, the CVaR estimates present the following behavior:

Portfolio	4th Quarter 2020					4th Quarter 2019				
	Dec/20	% of Net Capital	Average	% of Net Capital	σ	Dec/19	% of Net Capital	Average	% of Net Capital	σ
Banobras	331.67	0.47%	337.55	0.49%	6.69	185.95	0.29%	184.99	0.29%	2.08
Money Market	174.56	0.25%	183.67	0.27%	10.24	99.06	0.15%	97.80	0.15%	1.62
Exchange Desk	60.02	0.08%	52.94	0.08%	7.22	30.80	0.05%	27.54	0.04%	1.61
Derivatives Trading	14.20	0.02%	14.91	0.02%	0.40	8.09	0.01%	7.99	0.01%	0.12
Structural Derivatives Trading	211.99	0.30%	209.92	0.31%	4.36	118.32	0.18%	122.90	0.19%	2.36
Derivatives Trading Rec.	-	-	-	-	-	-	-	-	-	-

Derivative Financial Instruments

Prior to recording any derivative hedging contract, the Associate General Directorate of Risk Management evaluates the effectiveness of the derivatives to hedge the risk of underlying positions. Prior to entering into any derivatives trading contract, the market risk is estimated for overseeing the corresponding consumption limit and further validate the counterparty risk of the operation.

The follow-up on hedge effectiveness is reported monthly to the Associate General Directorate of Finance and quarterly to the Board of Directors and Comprehensive Risk Management Committee, by carrying out, the corresponding efficiency analysis toward that end, where the hedge is considered acceptable when the efficiency ratio is at a previously defined interval (between 0.80 and 1.25).

The calculation of CVaR is performed for trading derivatives, which is reported and monitored. The valuation techniques set out for current instruments correspond to generally accepted methods, which are approved by the CAIR.

The calculation of the liquidity gap includes credit flows, funding, and derivative instruments that hedge the above position, among other parameters.

Credit Risk of financial instruments, including derivatives.

At the 2020 fourth quarter closing, a decrease was observed in the amount exposed with financial intermediaries and investment portfolio in nominal terms for pesos with regard to the third quarter of 2020. The foregoing is explained by the increase in the authorized exposure with Counterparty for 436.9 million pesos and the decrease in the exposure of the Investment Portfolio for 1 billion 253.8 million pesos.

Exposure from Loans to Financial Intermediaries and Investment Portfolio	Exposure in nominal term		
	Exposure at December-2020 closing (A)	Exposure at September-2020 closing (B)	Change with regard to prior quarter [(A)/(B)%]
Loans to Financial Intermediaries			
Counterparty	9,703.7	9,266.8	+4.7%
Bank funding	36,440.0	36,440.0	-
Brokerage Firms (Derivatives)	16.2	3.5	+360.9%
Other financial intermediaries no national banking	8,500.0	8,500.0	-
Development Bank	6.8	3.6	+89.8%
Subtotal Loans to Intermediaries Financial	**54,659.9**	**54,210.3**	**+0.8%**
Investment Portfolio (PI)	25,102.6	26,356.5	-4.8%
PI subtotal	**25,102.6**	**26,356.5**	**-4.8%**
Total	**79,762.5**	**80,566.8**	**-1.0%**

Amounts in millions of Mexican pesos.

At 2020 closing, a decrease was observed in the amount exposed with financial brokerage firms and Investment Portfolio amounting to 35 billion 976.9 million pesos with regard to the 2019 closing. The decrease in authorized exposure was due mainly to the methodological updating of the follow-up and consumption of limits, in accordance with what was approved by the CAIR, pursuant to resolution 040/2020 dated July 23, 2020, whereby the nominal computer methodology was approved of consumption of limits and the redistribution of the specific limits by Line of business. Moreover, pursuant to resolution 046/2020, dated July 28, 2020, approved the restatement of the "Authorized exposure adjustment factor" and the "Credit Risk Weighting Factors by line of business", which have a bearing on the application of the "Methodology for the determination of limits and metrics of the desired risk exposure to credit risk profile".

Exposure from Loans to Financial Intermediaries and Investment Portfolio	Exposure in nominal term		
	Exposure at December-2020 closing (A)	Exposure at December-2019 closing (B)	Change with regard to prior quarter [(A)/(B)%]
Loans to Financial Intermediaries			
Counterparty	9,703.7	40,100.6	-75.8%
Bank funding	36,440.0	40,913.9	-10.9%
Brokerage Firms (Derivatives)	16.2	89.2	-81.9%
Other financial intermediaries no national banking	8,500.0	8,500.0	-
Development Bank	6.8	4,668.2	-99.9%
Subtotal Loans to Intermediaries Financial	**54,659.9**	**89,603.7**	**-39.0%**
Investment Portfolio (PI)	25,102.6	26,135.7	-4.0%
PI subtotal	**25,102.6**	**26,135.7**	**-4.0%**
Total	**79,762.5**	**115,739.5**	**-31.1%**

Amounts in millions of pesos.

For December 31, 2020, the calculation of CVA shows a total exposure to credit risk amounting to e 233.64 million pesos, which mainly arises from non-financial counterparties.

CVA (Mexican Pesos)	December 2020				September 2020			
	Derivatives	Money Desk	PIDV	PICV	Derivatives	Money Desk	PIDV	PICV
Non-Financial Counterparties	1.40	0.48	1.72	0.81	1.51	0.62	1.50	0.93
Non-Financial Counterparties	117.86	2.41	108.65	0.31	145.66	3.44	105.01	0.38

CVA (Mexican Pesos)	December 2020				December 2019			
	Derivatives	Money Desk	PIDV	PICV	Derivatives	Money Desk	PIDV	PICV
Non-Financial Counterparties	1.40	0.48	1.72	0.81	1.24	0.70	1.50	1.14
Non-Financial Counterparties	117.86	2.41	108.65	0.31	54.14	3.18	104.89	0.39

The calculation was restated in accordance with both domestic (D) and international (I) rating matrixes.
Amounts in millions of Mexican pesos

As of the December 2020 closing, the guarantees received for cash derivative financial instruments presented a 1.72% decrease with regard to the prior quarter.

The evaluation of counterparty creditworthiness, prior to carrying out the operations, as well as the characteristics of the debt securities that can be acquired by operating desks is considered in the market risk Policies and procedures, which include the operating framework for money market desks, as well as the Investment Portfolio Operating Framework.

As of the December 2020 closing, the operating Framework conditions are met for fixed rate and variable rate positions, as well as the position limits established, except for 0.44% of the total amount invested in securities, which received a decrease in rating below what is provided for by the Operating framework.

Derivative collateral management

Banobras currently has current derivatives trading portfolios with 56 counterparties, of which 19 financial counterparties have a contract that allows for trading collateral.

c) Liquidity risk

Liquidity risk management allows for identifying funding concentration risks to which Banobras is exposed. Funding operations at terms exceeding 30 days as of the December 2020 closing increased 18.66%, with regard to the closing of the immediately preceding quarter and increased 15.15%, in comparison with the prior year-end.

The potential loss on early liquidation of the money market lending position decreased 7.98%, in comparison with the third quarter of 2020.

The flow projection of risk positions is carried out based on the implied market rates, and the algebraic sum is carried out between credit and borrowing positions to know the liquidity shortage or surplus. That projection is carried out on loan portfolio positions, treasury positions, interbank loans, and derivative financial instruments.

d) Asset and Liability Management (ALM)

Banobras presents a 2.42% increase in the Economic Value of Capital in the quarter, due primarily to the increase in the portfolio. The Economic Value of capital increased 7.9% in the year, due mainly to the increase in positions in the Balance sheet and the decrease in rates during the year. Banco de Mexico decreased the benchmark rate to 4.25% during the year, due to the stabilization of inflation and little economic growth. Moreover, as of December month end, Stockholders' Equity presented a 2.69% increase with regard to September 2020, and a 4.96% increase with regard to the closing of the prior year.

It is important to note that the loan portfolio, guarantees of timely payment (GTP), as well as the funding and risk mitigation structure through OTC derivatives, are the elements that have the highest impact on the financial margin and risk of the Balance Sheet of Banobras. OTC derivatives are specifically highlighted by the Extinguishing Cross Currency Swap that has an associated contingency due to its extinction clause, which is currently recognized at an accounting level, and it is valued through a methodology approved by the CAIR.

Based on the interest rate risk management methodology of the balance sheet and liquidity risk, the Economic Value of Capital was calculated with regard to stockholders' equity at December 2020-month end, which decreased 0.45% with regard to September 2020, and it increase 4.84% with regard to December 2019.

The Economic Value of Capital considers an adjustment for credit risk, due to the expected loss of economic value of the portfolio, derivatives, and negotiable instruments that represented 8.75% this quarter, with regard to the economic value of capital, that is, it decreased 0.02% in the quarter and increase 4.41% with regard to December 2019. The decrease in the proportion is explained mainly by the increase in the economic value, due to the decrease in rates. On the other hand, the expected loss of economic value of the portfolio with regard to its economic value, that is, PEc/VEc represents 1.79%, in comparison with 1.81% of the prior quarter, and 1.88% of the prior year. That expected loss considers the estimate of credit risk in each one of the flows receivable from the portfolio at present value.

To know the sensitivity of the balance sheet to movements in interest rates, a 30% unfavorable movement was simulated in interest rates, with which a potential 2.91% unrealized loss was estimated in the Economic Value of Capital as of 2020 year end. This amount placed at 3.17% in September, and it was 3.94% one year ago. The foregoing indicates that given the balance sheet of the date in question, a 30% unfavorable movement at a level of rates would generate a 2.91% unrealized loss with regard to future cash flows receivable and deliverable at present value.

The DGAP (duration gap) as of December 2020 month end was 0.15 years, similar to that calculated in September 2020, and higher than the 0.08 years calculated in December 2019. The increase observed in the year is explained by the changes in the composition of the balance sheet. The growth of the loan portfolio contributed to the increase in the DGAP of the balance sheet in the quarter. The positive sign of the DGAP indicates that the Economic Value of Capital of Banobras is sensitive to increases in interest rates.

Descriptive statistics of the main credit and market risk exposure metrics are presented below:

	2020				2019
	dec-20	nov-20	oct-20	sep-20	dec-19
Sensitivity in EV of capital at 30%	-2.91%	-3.17%	-3.03%	-3.17%	-3.94%
EL/EV of Capital	8.75%	8.38%	8.68%	8.66%	8.39%
ELC/EVC	1.79%	1.72%	1.73%	1.81%	1.88%
DGAP (years)	0.15	0.14	0.14	0.15	0.08

VE: Economic Value
PE: Expected Loss of the economic value of capital
PE_C: Expected Loss of the economic value of the Portfolio
VE_C: Economic Value of the Portfolio
DGAP: Duration of the Balance Sheet

e) Operating risk

During the fourth quarter of the year, 3 operating risk events were recorded of which there was no journal entry and, therefore, the operating risk tolerance level was not exceeded.

As of the prior quarter closing, an unrecovered balance was reported pursuant to regulatory report R28–A 2811. That event was concluded without any effect for Banobras in the fourth quarter of 2020.

With regard to the estimate of the impact that would be generated by the materialization of identified operating risks, an expected loss would be generated in the amount of 12.54 million Mexican pesos, notwithstanding that the operating risk capital requirement is as follows:

Item	Dec-19	Sept-20	Dec-20
Capital Requirement	1,956.5	2,040.7	2,052
Number of times that the expected loss is covered	97.8	102	163.6

* Amounts in millions of Mexican pesos

f) Capital requirements

The amount of exposures corresponds to the amount presented in the Credit Risk section, since Banobras calculates the credit risk capital requirement under the Standard Method. For the calculation of the capital requirement, admissible financial collateral used amounts to:

Item	Dec-19	Sept-20	Dec-20
Zero Coupon Bonds	12,833.7	13,738.9	13,485.8

Amounts in millions of Mexican pesos

Positive fair value is presented in the following table, as well as netting profit, current and potential future exposure by type of counterparty, in accordance with the standard method for the capital requirement.

Item	Dec-19			Sept-20			Dec-20		
	Financial	Non-financial	Total	Financial	Non-financial	Total	Non-financial	Non-financial	Total
Positive fair value	18,186.0	4,575.0	22,761.0	23,351.4	10,658.2	34,009.6	23,495.4	10,150.7	33,646.1
Netting Profit	9,861.5	10.3	9,871.7	13,979.6	68.7	14,048.4	13,772.9	102.2	13,875.2
Collateral or Security Interests Maintained (Cash/Securities)	2,706.1	-	2,706.1	3,258.2	-	3,258.2	3,186.4	-	3,186.4
Current Exposure	8,324.5	4,564.7	12,889.2	9,371.8	10,589.5	19,961.2	9,722.5	10,048.4	19,770.9
Future Potential Exposure	225.7	-	225.7	230.2	1.0	231.2	207.1	0.8	207.9

Amounts in millions of Mexican pesos

Information for positions in shares

The reason for the position in shares of Banobras is as permanent investments on which it does not expect unrealized gains. This position is not listed publicly, and no amount thereof is recognized in the Basic Capital.

Item	Dec-19		Sept-20		Dec-20	
	Total	Capital req.	Total	Capital req.	Total	Capital req.
Equity investments (weighted at 100 percent)	-	-	-	-	-	-
Shares in complementary or auxiliary service companies in their management as referred to in Article 88 of the Credit Institutions Act (L.I.C.-Spanish acronym).	0.300	0.024	0.300	0.024	0.300	0.024
Equity investments in companies of Article 75 of the L.I.C. (L.I.C.-Spanish acronym) classified i:	-	-	-	-	-	-
Group X (weighted at 1,250%)	-	-	-	-	-	-
Of subsections I and II, unlisted, as well as those listed and unlisted in subsection III, whose holdings neither give rise to debt capitalizations nor settlements of debts	-	-	-	-	-	-
Companies designated as "risk capital"[1]	35.705	10.794	35.705	10.794	35.705	10.794

Amounts in millions of Mexican pesos

[1] The investments made by Development Banking in companies designated as "risk capital", in accordance with their internal regulations, consider the following treatment: 50% of the value of the investment in the basic capital is decreased and a 22.23% capital requirement is applied to the other 50% of the value of the investment for general market risk and 8% for a specific risk, in accordance with what is set out in the Provisions.

Information related to securitization exposure

a) Qualitative information:

1. The type of risk assumed by the Institution consists of high credit quality paper, which must comply with the Operating Framework in effect (investment regime) and a minimum profitability requirement. As part of the follow-up on their positions, Banobras monitors a series of market metrics, liquidity, and counterparty every day, in order to reduce the risk assumed by the Institution, by minimizing exposure to possible nonperformances by the issuer.

   a. The possible loss due to early liquidation of those positions is monitored daily in the liquidity risk associated with securities in position.

   b. The processes implemented at the institution to oversee the changes in credit and market risks of exposure in securities related to a securitization is comprised of various risk metrics that include daily monitoring and periodic disclosure. The CVaR as well as stress scenarios and sensitivity are calculated in market terms. There are counterparty limits and specific limits with regard to credit risk, depending on the line of business, which are monitored and reported daily, monthly, and quarterly.

2. Banobras carries out investor activities in the purchase of paper related to some securitizations, in conformity with the operating framework approved by the CAIR, and with the considerations issued by the Finance and Asset and Liability Management Committee (COFIGAP).

3. Banobras acquired securities related to securitizations as part of its investment strategy in 2019.

4. The rating agencies used for assigning the weighting factor for the determination of the capital requirement for credit risk in securitization positions are: Standard & Poor's, Fitch Ratings, Moody's, HR Ratings de Mexico, Verum, A.M. Best Rating Services and DBRS.

5. Banobras follows the practice of employing hedging strategies through derivative financial instruments.

6. The Bank has neither carried out its own securitizations nor through trusts.

7. The Institution does not participate as a sponsor of securitizations.

8. The Bank carries out journal entries in accordance with the currently enacted standards.

b) Quantitative information:

1. Banobras does not have its own securitized products.

2. The aggregate amount of:

   i. The securitization positions acquired itemized by risk weighted bands.

Band	Type of value	Amount (Millions of Mexican pesos)	Weighting Factor By market risk (%)
11	95	3,254.3	13.92
12	90	2,027.0	13.42
12	91	637.2	13.42
12	95	1,942.6	13.42
10	D2	477.2	5.48
12	D2	1,269.4	9.59
	Total	**9,607.7**	

3. El aggregate amount of:

   i) The capital requirements corresponding to securitized exposures itemized by risk of nonperformance:

Type of value	Amount (Millions of Mexican pesos) [a]	Weighting factor (%) [b]	Capital req. (Millions of Mexican pesos) [c] = [a] * [b]/100 * 8%
90	2,027.0	20	32.4
91	637.2	50	25.5
95	5,196.9	20	83.2
D2	1,746.6	100	139.7
Total	**9,607.7**		280.8

   ii) No securitized exposure is reduced from fundamental capital.

4. There are no charges to capital with regard to securitizations subject to early redemption treatment.

5. Banobras does not have exposures in re-securitizations.

CREDIT MANAGEMENT POLICIES

Granting (credits):

- The Institution grants credits to the Federal Government, Mexico City, state and municipal governments, their respective agencies, state and or municipality-owned entities, as well as public entities that may contract financing in terms of the applicable legislation and standards, financial brokers, private equity companies, and trusts created, provided that such financing is channeled toward developing activities directly or indirectly related to infrastructure and public services, in conformity with Articles 3, 6, 7, and 31 of the Internal Regulations of the Institution.

Evaluation:

- All credit or financing applications, before being sent to the granting stage, are analyzed by the Business areas in order for those applications to have the elements for drawing up the Term Sheet, in accordance with the guidelines set forth in the Credit Manual.

- The elements that must be taken into account to perform the credit analysis include the following:

  - Credit operations must not exceed the indebtedness limits determined by the Risk area, in conformity with the methodology authorized by the Comprehensive Risk Management Committee (CAIR) or the metric that substitutes it.

  - The interpretation of the results obtained from the inquiry made with the Credit-Reporting Agency (Credit Bureau) on the credit history of the applicant and, if applicable, guarantees by endorsement, guarantors, sureties or joint and several obligors, secondary obligors, trustors, individual stockholders who hold 10% or more of the shares or that represent at least 75% of the capital stock of the company.

  - Under no circumstances must credits be segmented to be authorized by one or more of the levels of authority.

Based on the Credit Analysis and Term Sheet drawn up by the Business areas, as well as the opinions of the Risk area and Juridical area, the Credit Management perform a Comprehensive Credit Evaluation, which sets out whether or not the operation is viable and the degree of risk thereof. They further verify that prudential aspects are covered with regard to credit and that each and every one of the requirements are met, as set forth in the Credit Manual.

Authorization:

Credit applications are authorized by the levels of authorities and officers duly authorized, based on the Term Sheet and their exhibits, as well as the Comprehensive Credit Evaluation. It is important to note that no credit is authorized if it does not have the minimum information and documentation set out in the Credit Manual and applicable provisions, by taking into account, among other things, the following:

- Primary source of recovery of the credit or financing.
- The creditworthiness of the credit of financing applicant.
- The proposed guarantee scheme that allows for recovering the proceeds granted or any mechanism that mitigates the risk associated with the financing.
- Risk exposure on the total credit or financing operations payable by the possible debtor, as well as his payment experience.
- The possible existence of a common risk, in conformity with the provisions set forth in the policies and procedures for risk management of the Banobras portfolio, set forth in the Comprehensive Risk Management Manual.
- The results of the sensitivity exercises on the projected flows of the applicant in dealing with variations in various risk factors, the credits or financing that they represent individually or under the common risk concept, the lower of an amount of more than ten percent of the basic capital of Banobras, or equal to or higher than thirty million UDIS in the equivalent in Mexican pesos, and whose term exceeds one year.
- In credits or financing whose source of payment and/or guarantee are comprised of proceeds assigned irrevocably in a trust, present the percentage of the source of revenues identified and/or the amount of proceeds to be placed in a trust, independently from the amount and/or percentage of proceeds allocated for the payment of prior commitments.
- The term established for the credits or financing with a proprietary source of payment must be congruent with the maturity of the respective project, concession title, service contract, decree or any other juridical instrument related to the project.
- The conclusions and opinion of the Comprehensive Credit Evaluation with regard to the viability of the operation, in accordance with the degree of risk thereof.

Control:

- Once credits are authorized by the by the levels of authorities and officers duly authorized, they are formalized by an agreement drawn up by the Juridical area.

  The Business area sends the legal instruments supporting authorized the operations duly signed to be sent to the vault and a copy thereof to the Credit Control and Regulatory Desk, which verifies that the credits to be granted were documented in the terms and condition that would have been approved for that purpose and, if applicable, it releases the proceeds applied for by the borrower, and the corresponding disbursements are subsequently authorized.

- Once the proceeds are released, the portfolio management area, with the approval of the disbursements, authorizes those disbursements in accordance with what was agreed upon contractually and records the credit and its disbursements in the Comprehensive Portfolio System, whereby the journal entry is made. Control of the portfolio is subsequently kept through monthly credit granted reports that are sent to the Business areas and the operation-accounting reconciliation.

Credit recovery:

- Statements of account are sent to borrowers within 10 days after they are issued for recovery of the credits.
- The recovery of the portfolio is recorded automatically every day, provided that it contains the correct alphanumerical reference of each credit. Otherwise, it is applied monthly upon identification of the deposits.

- Notification to the Business areas on delays in payments of the portfolio generated by their borrowers, by the follow-up system as well as by the area that manages the portfolio.
- Should delays continue in payment and the credit falls into nonperforming portfolio, arrangements are made to furnish the collateral as guarantees maintained by the credit, in conformity with the indications of the business areas.

Follow-up on the credit risk:

- Each one of the credits of the portfolio is followed up on permanently. All that relevant information is gathered that indicates the status of the credits and, if applicable, the guarantees and ensuring that they maintain the minimum proportion that would have been established. Guarantors are followed up on as if any other borrower were involved.
- The credits that will have foreseeable recoverable problems, as a result of the permanent follow-up or for having fallen into the nonperforming portfolio, are subject to a detailed evaluation to determine the possibility of establishing new terms and conditions that increase their probability of being recovered on a timely basis.

INTERNAL CONTROL SYSTEM

In the terms set forth in the General Provisions Applicable to Lending Institutions, the Board of Directors of Banobras, at the proposal of the Audit Committee and through Resolution No. 074/2020, at their Ordinary meeting held on October 1°, 2020, approved the update of the document named "Objectives of the Internal Control System of Banobras", the guidelines for their implementation and duties, as well as responsibilities assigned to the distinct areas and internal bodies that take part in their implementation, application, oversight, in addition to supervision.

In addition, the maximum Governing Body of BANOBRAS issued instructions to have it disseminated through institutional means; therefore, they were made known to all Bank personnel through a communique by e-mail.

Moreover, Banobras has the following guiding internal control documents, approved by the corresponding bodies:

a) Code of Conduct of Banco Nacional de Obras y Servicios Públicos, S.N.C.;

b) Policies, Standards, Guidelines, Manuals, as well as Provisions for the appropriate employment and use of human resources, materials, and services;

c) Manuals for the organization and operation of the distinct business and support areas in which the objectives, guidelines, policies, responsibilities, procedures, and controls, among other aspects are described in detail in order to document, record, and settle operations, and to safeguard the information and the assets.

d) Policy and procedures manual for money laundering and financing terrorism prevention in order to detect and prevent operations with proceeds of illicit origin and financing terrorism;

e) Policies, Guidelines, Guidelines, Manuals and Guides on Information Security;

f) Policies, Outlines, Guiding Principles, Manuals, and Guidelines in Information Security matters;

g) Methodology for Evaluating the Customer risk assessment; and;

h) Methodology to Assess the Entity's Degree of Risk.

Likewise, by following uniform criteria and in order to rationalize the issue of normative documents that regulate the daily operation of the Bank, continuity was given to workers in 2020, for the update of the documentation of the fundamental processes, in accordance with the purpose of the Bank and its corresponding controls, oriented toward:

- Segregation of duties;

- Clear assignment of responsibilities; and
- Safeguarding of Information and documentation.

In addition, the organizational structure of the Bank is supported by principles of Independence, segregation, as well as the delegation of duties and responsibilities, by adapting itself to business requirements, as well as the regulations issued by supervisory authorities and regulators.

The Bank has the Internal Controllership Management in charge of coordinating and supervising the operation of the Institutional Internal Control System, as well as supporting the areas of Banobras in designing, establishing and/or updating those of developing, designing, and updating the institutional controls that give rise to compliance with internal and external rules, as well as the correct operation of the information processing systems.

Accordingly, Internal Control Agendas (ACI - for its acronym in Spanish) continued to be implemented as one of the self-evaluation tools, which are built starting with comprehensive work that allows for having: a) a series of reagents (prepared beginning with internal- external rules and/or requests from any government agency, supervisor or inspector); b) Periodicity (monthly, quarterly, semi-annually, annually or other); and c) summary of the evidence corresponding to established answers, which allow for fostering, strengthening, and promoting self-control culture.

During fiscal 2020, the Internal Controllership Department continued to promote the application of the ACIs as a self-evaluation tool, through the platform established on the institutional intranet, the participating areas of Trustee Support Processes, Money Laundering and Financing Terrorism Prevention, Derivative Products, Attraction and Investment of Financial Resources, Credit, Trustee Management, Risk Management, Accounting, Information Security, Attraction and Investment of Financial Resources, which had access to the ACIs established for compiling the information corresponding to each reagent.

Moreover, during the reporting period, the proposal authorizing the ACIs was analyzed and presented to the participating areas, which promote the improvement of reagents.

Accordingly, each responsible area verified, provided feedback, and gave its Approval, which allowed for creating the ACI on the collaborative portal of the Institutional Intranet to start its attention, beginning January 2021.

Banobras has established an Audit Committee in which members of the Board of Directors participate, of which at least one should be independent and preside over it. The Committee meets at least every quarter, and its operation is governed by a manual approved by the Board of Directors. This Committee assists the Board of Directors in supervising the financial statements and appropriate operation of Internal Control.

The Institution also has an independent Internal Audit area that reports to the Audit Committee. The head of the Audit Committee is appointed by the Board of Directors at the proposal of the Audit Committee.

On the other hand, it is important to point out that the competencies and responsibilities related to the Internal Comptroller's Office and the Internal Audit Area are evaluated by the Audit Committee.

In addition, and in order to establish actions for assuring the integrity and ethical behavior of public servants in the performance of their jobs, positions or commissions, an Ethics Committee was created which, among other things, has the following duties:

- Participate in issuing the Code of Conduct, as well as assist in applying and complying with that Code.

- Act as a consulting and advisory body specialized in matters related to their application and compliance.

34. Recently issued regulatory pronouncements

- **Changes in the Provisions of the CNBV**

On April 8, 2020, the CNBV, through a press release, announced the most recent extension for the effectiveness of the Resolution that modifies the General Provisions applicable to lending institutions, published in the Official Daily Gazette on March 13, 2020, concerning the implementation of the IFRS 9 international standard in Mexico, including IFRS 15 and IFRS 16, as well as the incorporation of certain Financial Reporting Standards issued by the Consejo Mexicano de Normas de Informacion Financiera, A.C. (CINIF), to the standards applicable to lending institutions. The new effective date is January 1, 2022.

The Management of the Institution is analyzing the effect that these modifications will have on the financial information. The most relevant changes are discussed below:

Accounting Criterion A-2 "Application of particular standards"

Various MX FRS issued by the CINIF are incorporated in order for them to apply to credit institutions, at the time of determining the term for them to be applied, indicating their effectiveness at January 1, 2022. Those MX FRS are as follows: B-17 "Determination of fair value", C-3 "Accounts receivable", C-9 "Provisions, contingencies and commitments", C-16, "Impairment of financial instruments receivable", C-19 "Financial instruments payable", C-20 "Financial instruments for collecting principal and interest", D-1 "Revenues on contracts with customers", D-2 "Costs of contracts with customers", and D-5 "Leases".

It is important to note to note that MX FRS C-2 "Investment in financial instruments" and MX FRS C-10 "Derivative financial instruments and hedge ratios" will be applicable to Credit Institutions, once the specific criteria of B-2 are repealed. Investments in securities" and B-5 "Derivatives and hedge trading", issued by the CNBV, in effect to date.

- **New pronouncements issued by the CINIF**

The CINIF has issued the MX FRS and Improvements to MX FRS are discussed below:

MX FRS B-11 *"Disposition of long-lived assets and discontinued operations".* It goes into effect for fiscal years beginning January 1, 2022 for credit institutions. The purpose of this standard is to separate the regulatory criteria contained in the current Bulletin C-15 Impairment in the value of long-lived assets and their disposition, by segregating them into two separate standards, one on the disposition of long-lived assets and discontinued operations, and another on the impairment of long-lived assets in a new MX FRS C15. The first-time application of this MX FRS does not give rise to accounting changes in the financial statements.

MX FRS B-17 *"Determination of fair value".* It goes into effect for fiscal years beginning January 1, 2022, for credit institutions. It sets forth the valuation standards and disclosure in the determination of fair value, in its initial and subsequent recognition, if fair value is required or permitted by other particular MX FRS. If applicable, changes in valuation or disclosure must be recognized prospectively.

MX FRS C-3 "Accounts Receivable". It goes into effect for fiscal years beginning January 1, 2022, for credit institutions, with retrospective effects, except for the effects of valuation that can be recognized prospectively, if it is impractical to determine the effect in each one of the prior fiscal years presented. Accounts receivable that are treated in this MX FRS are those that do not bear interest, either implicit or explicit and they are short-term.

MX FRS C-9 *"Provisions, Contingencies and Commitments".* It goes into effect for fiscal years beginning January 1, 2022, for credit institutions. It renders Bulletin C-9 "Liabilities, provisions, assets and contingent liabilities and commitments" null and void. The first-time application of this MX FRS does not give rise to accounting changes in the financial statements.

MX FRS C-16 ***"Impairment of financial instruments receivable".*** It goes into effect for fiscal years beginning January 1, 2022, for credit institutions with retrospective effects. It sets forth the standards for the book recognition of expected credit losses of all financial instruments receivable (IFC). It further sets important when and how an expected impairment loss must be recognized as well as the methodology for its determination.

MX FRS C-19 ***"Financial instruments payable".*** It goes into effect for fiscal years beginning January 1, 2022, for credit institutions, with retrospective effects. The purpose of this standard is to separate the regulatory criteria contained in Bulletin C-9, since the characteristics of financial liabilities and liabilities for provisions are distinct. The standard referring to financial liabilities is shifted to MX FRS C19 and, therefore, the part of provisions, contingencies, and commitments is shifted to the new MX FRS C9. "Provisions, contingencies and commitments"

MX FRS C-20 ***"Financial instruments for collecting principal and interest".*** It goes into effect for fiscal years beginning January 1, 2022, for credit institutions, with retrospective effects. Its main change is the classification of financial instruments in assets, by adopting the business model concept of the administration.

MX FRS C-22 ***" Cryptocurrencies ".*** It goes into effect for fiscal years beginning January 1, 2022, for lending institutions, with retrospective effects. It sets forth the standards for the valuation, presentation, and disclosure for recognition in the financial statements of an entity with regard to cryptocurrencies, mining expenses of cryptocurrencies, and cryptocurrencies that they do not own, but that they keep under their custody.

MX FRS D-1 ***"Revenue from Contracts with Customers".*** It sets forth the standards for the book recognition of revenues arising from contracts with customers, and it becomes effective for fiscal years that start, beginning January 1, 2022 for credit institutions with retrospective effects. It eliminates the suppletory application of the International Accounting Standard (IAS) 18 *"Revenues"*, IAS 31 *"Revenues- Advertising services swaps"*, IFRIC 13 *"Customer Loyalty Programs"*, and IFRIC 18 *"Transfers of assets from customers"*. In addition, this MX FRS, together with MX FRS D-2, repeals Bulletin D-7 *"Construction and manufacturing contracts of certain capital assets"* and IFRS-14 *"Construction contracts, sale, and rendering of services related to real property"*.

MX FRS D-2 ***"Costs incurred on contracts with customers".*** It sets forth the standards for the book recognition of the cost of sales of goods or rendering of services. It goes into effect for fiscal years beginning January 1, 2022, for credit institutions, with retrospective effects. Together with MX FRS D-1 "Revenues from contracts with customers", it repeals Bulletin D-7 "Construction and manufacturing contracts of certain capital assets" and INIF 14 "Construction contracts, sale, and rendering of services related to real property", except in what concerns the recognition of assets and liabilities in this type of contracts in the scope of other MX FRS.

MX FRS D-5 ***"Leases".*** It goes into effect for fiscal years beginning January 1, 2022, for credit institutions, with retrospective effects. This new standard invalidates Bulletin D-5 "Leases" and the suppletory applicability of IFRIC 4 "Determination of whether an agreement has a lease".

Improvements to FRS 2021. They are issued by the CINIF as part of the updating process and they include punctual changes in MX FRS that can or cannot bring about changes.

The improvements to MX FRS that generate accounting changes are as follows:

MX FRS C-2 ***"Investment in financial instruments".*** An irrevocable choice is permitted to be made in the opening recognition of certain investments in marketable equity instruments that are normally valued at their fair value through the net gain or loss, in order for subsequent changes in their fair value are allocated to Other Comprehensive Income (OCI).

MX FRS C-19 *"Financial instruments payable".* It sets out the presentation of the gains or losses on the derecognition of liabilities in the Statement of Comprehensive Income, in the gain or loss relative to operating activities. Interest, fees, and other prepaid items are eliminated from the items that comprise part of transaction costs.

MX FRS C-20 *"Financial instruments for collecting principal and interest".* It sets out the presentation of the effects of the renegotiation of a financial instrument for collecting principal and interest, in the gain or loss relative to operating activities in the Statement of Comprehensive Income. Interest, fees, and other prepaid items are eliminated from the items that comprise part of transaction costs.

MX FRS D-5 *"Leases".* Differences are set out in detail in the mandatory disclosures of the expense related to short-term and low value leases on which a right-of-use asset has not been recognized. This improvement corrects erroneous references to the exemptions of paragraph 20.4. The disclosure on investment properties is eliminated, since the right-of-use asset does not conform to the definition of investment property. Specifications on leaseback sales are made as to how to determine the lease liability and the right-of-use asset when acting as the seller-lessee. The paragraph is modified corresponding to the lessor, which sets out the lease payments that must be included in the opening recognition of the net investment in the lease.

Improvements to MX FRS that do not generate accounting changes are modifications relative to detailed definitions that help establish a clearer and more comprehensive regulatory statement of the issue, and they are:

MX FRS C-8 *"Intangible assets".* It introduces the term "amortizable amount" to refer to the cost of acquisition of an intangible asset, less its residual value and, if applicable, less accumulated impairment losses.

Glossary. Pursuant to newly issued MX FRS and review of some MX FRS already issued, the following definitions are modified: amortization, depreciation, inventory, amortizable amount, Expected Credit Loss (ECL), risk free interest rate, and residual value (salvage, scrap or waste).