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, 2021 AND 2020

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, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020 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 Company in accordance with the Code of Ethics for Professional Accountants issued by the Mexican Institute of Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with such code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

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, 2021. 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 $14,868 at December 31, 2021.

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 reviewed the calculation mechanism of the allowance for loan losses.

c) We reconciled 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 on the design of the relevant controls implemented by the Administration Institution for the valuation of derivative financial instruments, including, among others, the data capture in the systems, the integrity of the information issued and the security of the information technologies.

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

c) Through selective tests we reviewed the valuation process of the derivative financial instruments carried out with the models established by the Bank's Management.

d) We compared the position of the derivative financial instruments held at the end of the fiscal year according to the information by the systems involved in the process of operating 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, as well as the review of the counterparties of said instruments. We reviewed the proper presentation and disclosure of derivative financial instruments for trading and hedging purposes in the financial statements and their notes.

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 people 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 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 concluded 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 evaluated 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 COMPAÑIA, S. C.

C.P.A. Carlos Enrique Chárraga Sánchez

Mexico City,
March 9, 2022

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

Balance sheets
At December 31, 2021 and 2020
(Amounts in millions of Mexican pesos)
(Notes 1 and 2)

Assets	Note	2021	2020
Cash and cash equivalents	6	$ 12,059	$ 14,305
Investments in securities	7		
Trading securities		368,195	363,454
Available-for-sale securities		15,279	16,143
Held-to-maturity securities		9,066	11,490
		392,540	391,087
Debtors on repurchase/ resale agreements (debit balance)	8	-	-
Derivatives	9		
Trading purposes		13,493	22,021
Designated as hedges		7,572	11,619
		21,065	33,640
Valuation adjustments on hedges of financial assets	10	(286)	(404)
Current loan portfolio			
Commercial credits			
Business or commercial activity		141,484	150,426
Financial entities		28,079	28,443
Governmental entities		328,866	323,149
Consumer lending		-	1
Housing lending			
Medium class and residential		82	100
Loans granted as an Agent of the Federal Government		454	516
Total current loan portfolio		498,965	502,635
Past-due loan portfolio			
Commercial credits			
Business or commercial activity		10,080	2,529
Consumer lending		10	10
Housing lending			
Medium class and residential		47	45
Total past-due loan portfolio		10,137	2,584
Loan portfolio	11	509,102	505,219
Allowance for loan losses	12	14,868	11,835
Total loan portfolio, net		494,234	493,384
Other accounts receivable, net	13	13,284	27,382
Balance as an Agent of the State and Municipal Support Fund Mandate	13	10	44
Foreclosed assets, net		1	7
Property, furniture and equipment, net	14	517	524
Permanent investments	15	74	74
Deferred income tax	19	7,421	246
Other assets	16		
Deferred charges, prepaid expenses and intangibles		230	483
Other short and long-term assets		2,703	3,297
		2,933	3,780
Total assets		$ 943,852	$ 964,069

Liabilities	Note	2021	2020
Deposit funding	17		
Time deposit			
Money market		$ 384,404	$ 375,078
Debt securities issued		74,012	66,832
		458,416	441,910
Interbank loans and loans from other agencies	18		
Immediately due and payable		270	9,288
Short-term		6,363	13,348
Long-term		15,785	16,607
		22,418	39,243
Creditors under security repurchase agreements	8	357,169	370,271
Derivatives	9		
Trading purposes		7,696	13,618
Designated as hedges		7,923	16,563
		15,619	30,181
Other accounts payables			
Income tax payable	19	-	31
Employee profit sharing payable	2-t	-	176
Creditors for settlement of operations	9	15	-
Creditors for cash collateral received		769	3,202
Accrued liabilities and other accounts payables	20	5,091	5,667
		5,875	9,076
Taxes and deferred employee profit sharing, net	19	-	128
Deferred credits and advance payments from customers		4,807	5,237
Total liabilities		864,304	896,046
Commitments and contingent liabilities	22		
Stockholders' Equity	23		
Capital contributions			
Capital stock		21,314	19,793
Contributions for future capital increases formalized by its Governing Body		14,011	11,743
Premium on subscription of equity contribution certificates		16,622	12,400
		51,947	43,936
Earned capital			
Capital reserves		5,718	5,652
Retained earnings		22,561	21,712
Gain or loss on valuation of available-for-sale securities	7-b	(1,390)	(2,070)
Gain or loss on valuation of cash flow hedging instruments		3	(24)
Remeasurements of defined employee benefits		(1,631)	(1,843)
Net income		2,340	660
		27,601	24,087
Total stockholders' equity		79,548	68,023
Total liabilities and stockholders' equity		$ 943,852	$ 964,069

Memorandum Accounts

	Note	2021	2020
Guarantees by endorsement executed		-	$ 597
Contingent assets and liabilities	22-c	$ 51,260	51,410
Credit commitments	22-d	42,519	39,168
Assets placed in trust or legal custody	29		
Trusts		425,880	480,623
Management trust of the Banobras retiree pension plan		24,116	24,491
Mandates		9,323	9,328
Assets in custody or administration	30	254,882	275,072
Collateral received by the entity	31	4,584	4,387
Collateral received and sold or furnished as a guarantee by the entity	31	4,584	4,387
Uncollected accrued interest derived from the non-performing loan portfolio		1,633	1,402
Other memorandum accounts	32	775,986	806,589
		$ 1,594,767	$ 1,697,454

Historical capital stock amounts to $17,888 and $16,368 at December 31, 2021 and 2020 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, 2021 and 2020
(Amounts in millions of Mexican pesos)
(Notes 1 and 2)

	Note	2021	2020
Interest income		$ 50,202	$ 58,390
Interest expenses		37,940	46,408
Financial margin	26	12,262	11,982
Allowance for loan losses	12	2,993	783
Financial margin adjusted by credit risks		9,269	11,199
Commissions and fee income		919	1,017
Commissions and fee expense		45	82
Financial intermediation	27	(980)	1,897
Other operating income (expenses)	28	(11,240)	(11,345)
Administration and promotion expenses		1,177	2,631
		(12,523)	(11,144)
Operating income		(3,254)	55
Equity in earnings (losses) of unconsolidated subsidiaries, associates, and joint ventures		-	-
Income before taxes on earnings		(3,254)	55
Taxes on earnings due	19	-	-
Deferred taxes on earnings (net)	19	(5,594)	(605)
		(5,594)	(605)
Earnings (loss) before discontinued operations		2,340	660
Discontinued operations		-	-
Net income		$ 2,340	$ 660

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, 2021 and 2020
(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, 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
Changes inherent to decisions by stockholders										
Allocation of net income to retained earnings	-	-	-	-	660	-	-	-	(660)	-
Result from corrections of errors	-	-	-	-	255	-	-	-	-	255
Creation of reserves	-	-	-	66	(66)	-	-	-	-	-
Capitalization of contribution for future capital increases	1,521	(5,743)	4,222	-	-	-	-	-	-	-
Contributions for capitalization (Note 23-b)	-	8,011	-	-	-	-	-	-	-	8,011
Changes inherent to recognition of comprehensive income										
Comprehensive income										
Net income (loss)	-	-	-	-	-	-	-	-	2,340	2,340
Gain or loss on valuation of available-for-sale securities	-	-	-	-	-	680	-	-	-	680
Gain or loss on valuation of cash flow hedging instruments	-	-	-	-	-	-	27	-	-	27
Remeasurements for defined employee benefits	-	-	-	-	-	-	-	212	-	212
Balances at December 31, 2021	$ 21,314	$ 14,011	$ 16,622	$ 5,718	$ 22,561	$ (1,390)	$ 3	$ (1,631)	$ 2,340	$ 79,548

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.

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

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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, 2021 and 2020
(Amounts in millions of Mexican pesos)
(Notes 1 and 2)

	2021	2020
Net income	$ 2,340	$ 660
Adjustments on items that do not imply cash flow:		
Depreciation of property, furniture and equipment	6	10
Provisions (including net cost of employee benefits)	850	864
Taxes on earnings due and deferred	(5,594)	(605)
Others	(1,466)	(90)
	(6,204)	179
Operating activities		
Change in items related to operating activities		
Investments in securities	(774)	(2,010)
Debtors on repurchase agreements	-	3,750
Derivatives (asset)	8,528	(7,229)
Loan portfolio (net)	(850)	(56,523)
Foreclosed assets (net)	6	9
Other operating assets (net)	14,298	(11,702)
Deposit funding	16,505	24,607
Interbank loans and loans from other agencies	(16,824)	4,987
Creditors under security repurchase agreements	(13,102)	19,759
Derivatives (liability)	(5,921)	5,931
Other operating liabilities	(3,600)	614
Hedging instruments (hedged items related to operating activities)	(4,567)	5,612
Income tax paid	(105)	(269)
Net cash flows from operating activities	(6,406)	(12,464)
Investing activities		
Proceeds from dispositions of property, furniture and equipment	-	-
Net cash flows from investing activities	-	-
Financing activities		
Contributions for future capital increases	8,011	6,000
Net cash flows from financing activities	8,011	6,000
Net increase or (decrease) in cash and cash equivalents	(2,259)	(5,625)
Effects of changes in the value of cash and cash equivalents	13	60
Cash and cash equivalents at beginning of period	14,305	19,870
Cash and cash equivalents at end of period	$ 12,059	$ 14,305

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 Financial statements and notes were approved to be issued by the directors who sign them on March 9, 2022. 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, 2021 and 2020 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. Said 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 2021 and 2020, 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
2021	7.108233	7.61%	14.16%
2020	6.605597	3.23%	11.31%
2019	6.399018	2.77%	15.03%

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, 2021, and 2020 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, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, Banobras does not hold positions in forward contracts.

- **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, 2021 and 2020, 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, 2021 and 2020, 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 statement 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 the income statement 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 reclassified 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.

o. 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.

p. 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.

q. 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.

r. 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, 2021 and 2020, there have not been any impairment indicators.

s. 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, 2021 and 2020, 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.

t. 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".**

As of fiscal year 2021, Banobras, as a Development Bank, started to recognize the balance of plan amendments not recognized for accounting purposes, and the accrued balance of gains or losses on the plan amendment not yet recognized in an amount of $1,402, equivalent to 20% of the balances beginning with their initial application, and an additional 20% in each subsequent year until reaching 100%, maximum in fiscal 2025.

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.

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. An amount equivalent to the recycling determined in the fiscal year was recognized in OCI and in the liability up to December 31, 2020. As of December 31, 2020, that amount for the Defined benefit plan amounted to $470, whereas it amounted to $2 for 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, 2021 and 2020, the net cost for the period for the Defined benefit plan amounted to $765 and $774, respectively, whereas that cost for the Defined contribution plan amounted to $41 and $49, respectively.

u. 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 indicated in article 9 of the LISR in force in the fiscal year to which its determination corresponds. For the years 2021 and 2020, the Institution did not obtain a base taxable income for the determination of the workers' participation in profits. As of December 31, 2020, a balance was reported in this concept for $176 corresponding to PTU provisions pending distribution from previous years.

As of December 31, 2021 and 2020, Banobras recorded a deferred PTU liability amounting to $1,580 and $128, respectively (Note 19-b).

v. 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.

w. 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, 2021 and 2020 amounts to $7.108233 and $6.605597, respectively. The value of the UDI at the issue date of these financial statements (March 9, 2022) is $7.197166.

x. 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.

y. 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.

z. 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.

aa. 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 instrumnts.

ab. 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.

ac. 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)

Pursuant to Official Communications P285/2020, P293/2020, dated March 26 and April 15, 2020, respectively, the CNBV issued temporary Special Accounting Criteria (CCE) in fiscal 2020.

The foregoing is concerned with the programs and support that lending institutions have implemented 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 2020, whereby both Public Sector and Private Sector clients 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, 2021, 7 credits are reported in the scheme described above; Credit corresponds to business or commercial activity and 6 to credits of government entities. The captions approved also correspond to the deferred payments on capital and interest, whereas 15 credits were reported as of December 31, 2020; 5 correspond to Credits with a business or commercial activity and 10 to credits of government entities. The captions approved also correspond to the deferred payments on capital and interest.

As of December 31, 2021, the effects of applying the CCE are as follows:

- **Credit card**

		Deferred amount	
Item	**Type of loan**	2021	2020
Interest	Business or commercial activity	$ 14	$ 314
Interest	Governmental entities	73	484
		$ 87	$ 798

- **Past due balance**

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 at December 31, 2021 and 2020:

Type of loan	2021	2020
Business or commercial activity	$ 713	$ 9,535
Governmental entities	16,345	29,721
	$ 17,058	$ 39,256

- **Interest income**

Considering the scenario without CCE, for the credits incorporated into the program, in fiscal year 2021, $2,312 were known in results, a figure lower by $87, compared to what was presented in the income statement, for interest income; while, in 2020, $2,477 were obtained, a lower figure of $331.

As of December 31, 2021 and 2020, interest income is presented as follows:

	2021			2020		
Type of credit	With CCE	Without CCE	Difference	With CCE	Without CCE	Difference
Business or commercial activity	$ 689	$ 675	$ 14	$ 861	$ 713	$ 148
Governmental entities	1,710	1,637	73	1,947	1,764	183
	$ 2,399	$ 2,312	$ 87	$ 2,808	$ 2,477	$ 331

- **Allowance for loan losses**

At fiscal 2021 and 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 $2,376 and $12,618 respectively.

Allowance for loan losses	2021	2020
For the borrowers to which the CCE were applied	$ 722	$ 859
For the borrowers with CCE had the criteria discussed not been applied	3,098	13,477
Complementary preventive estimate in the event that the CCE had not been applied	2,376	12,618
For the loan portfolio without including those borrowers towhom the CCE had been applied	14,146	10,976
For the total loan portfolio (financial statement as of December 31, 2021)	14,868	11,835

- **Capitalization ratio:**

As of December 31, 2021 and 2020, the information regarding the calculation of the Capitalization [1] Ratio considering the effect of the special accounting criteria, as well as that that would have been obtained if they had not been applied, is as follows:

	2021		2020	
Item	With CCE	Without CCE	With CCE	Without CCE
Net capital	$ 80,940	$ 78,187	$ 69,520	$ 56,275
Weighted assets subject to total risks	378,880	400,085	406,404	445,073
Capitalization index (ICAP)	21.36%	19.54%	17.11%	12.64%

b) Banobras' strategy in dealing with the COVID contingency

As a consequence of the sanitary contingency, 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.

Banobras reported credit granted in the amount of $93,650 and $141,472 in 2021, highlighted by financing to the Federal Government, States and Municipalities and investment projects, mainly to energy projects.

On the other hand, the Bank maintained the recovery of its credit portfolio in the amount of $81,086 and $95,972 in 2020, mainly from the Federal Government, States and Municipalities, and State-Owned Productive Companies in 2021.

[1] In process of validation by Banco de México.

At 2021 year-end, the Bank reported a non-performing loan index (non-performing portfolio/total portfolio) of 1.99%, lower than 0.51% observed in 2020. The financial soundness of Banobras is highlighted by having an ICAP (Net capital/Assets for total risks of 21.36% (2020: 17.11%), which indicates that the bank is in a position to deal with unexpected losses and/or loan portfolio impairment.

As of December 31, 2021, the Institution obtained a net income amounting to $2,340 and $660 in 2020 in a context of economic contraction, once payments had been made to the Federal Government for its sovereign guarantee on the liabilities of Banobras.

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, 2021 and 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, 2021 and 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, 2021 and 2020, the Institution has not incorporated credits into this scheme.

4. Related parties

Asset and liability operations

At December 31, 2021 and 2020, 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:

Financial agent:	2021 Asset transaction	2021 Liability transaction	2021 Long (short) position	2020 Asset transaction	2020 Liability transaction	2020 Long (short) position
Euros	$ 454	$ 453	$ 1	$ 516	$ 515	$ 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, 2021 and 2020, the financial statements contain foreign currency denominated rights and obligations, as follows:

	Foreign currencies (millions)		Equivalence in Mexican pesos	
Type of currency	2021	2020	2021	2020
Assets:				
US dollars	2,453	2,713	$ 50,300	$ 54,016
Japanese yen	48,756	54,304	8,668	10,473
Euros	22	24	512	579
			59,480	65,068
Liabilities:				
US dollars	2,313	2,642	47,444	52,605
Japanese yen	48,288	49,228	8,584	9,494
Euros	19	22	442	541
			56,481	62,640
Long position			$ 2,999	$ 2,428

At December 31, 2021 and 2020, the exchange rates used to value foreign currency denominated assets and liabilities in Mexican pesos are:

	Amounts in Mexican pesos	
	2021	2020
US dollars	$ 20.50750	$ 19.9087
Japanese yen	0.17778	0.19286
Euros	23.27632	24.35630

At March 9, 2022, issue date of the financial statements, the U.S. dollar exchange rate is $20.9677, the Japanese yen is $0.1809 Mexican pesos, and the Euro is $23.0047 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, 2021 and 2020, the Institution complies with this limit.

6. Cash and cash equivalents

At December 31, 2021 and 2020, this caption is summarized as follows:

	2021	2020
Cash, bills, and coins	$ 1	$ 1
Deposits in domestic and foreign banks (a)	471	610
Deposit in Banxico (b)	11,412	11,407
Call Money (c)	175	2,287
	$ 12,059	$ 14,305

a. Deposits in domestic and foreign banks

As at December 31, 2021 and 2020, the balances of these deposits are summarized as shown below:

		2021		2020	
Currency	Features	Foreign currency (thousands)	Mexican pesos	Foreign currency (thousands)	Mexican pesos
Mexican pesos	Checking accounts	-	$ 8	-	$ 5
US dollars	Checking accounts	19,575	401	27,153	540
Japanese yen	Checking accounts	14,388	3	14,427	3
Euros	Checking accounts	2,533	59	2,550	62
			$ 471		$ 610

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, 2021 and 2020, the balance of the monetary regulation deposit maintained by Banobras in Banxico amounts to $11,412 and $11,407, respectively. The target rate at those rates was 5.51% and 4.26%, respectively.

c. Call Money

As of December 31, 2021 and 2020, Call Money transactions executed amount to $175 and $2,287, respectively. The operation was executed at a 5.50% rate in a 3 days' period in 2021, whereas it was at a 4.25% rate and in a 4 days period in 2020.

At December 31, 2021 and 2020, interest earned on cash and equivalents amounts to $515 and $551, respectively (Note 26).

7. Investments in securities

At December 31, 2021 and 2020, investments in securities are summarized as follows:

a. Trading securities

	2021				2020			
	Cost of acquisition	Interest	Gain (loss) on valuation	Fair value	Cost of acquisition	Interest	Gain (loss) on valuation	Fair value
Unrestricted securities								
CETES	$ 3,103	$ 192	$ (11)	$ 3,284	$ 7	-	-	$ 7
BONDES	7,334	8	16	7,358	126	-	-	126
Securities exchange certificate	4	-	-	4	4	-	-	4
Mutual funds	112	-	-	112	1,264	-	-	1,264
	10,553	200	5	10,758	1,401	-	-	1,401
Restricted securities								
CETES	2,506	137	(5)	2,638	4,318	$ 104	$ 29	4,451
BONDES D	226,112	399	142	226,653	251,469	336	(66)	251,739
BONDES F	32,010	31	(4)	32,037	-	-	-	-
Securities exchange certificate	13,891	24	13	13,928	14,745	29	51	14,825
Securities exchange certificates (GF)	4,981	35	(34)	4,982	3,665	29	(49)	3,645
Certificates of deposit	702	3	-	705	705	2	-	707
BPAS	25,057	396	155	25,608	38,148	529	208	38,885
Fixed rate bonds	214	1	(1)	214	-	-	-	-
UDIBONOS	1,028	4	(11)	1,021	-	-	-	-
BPAGT	30,855	186	17	31,058	31,577	150	65	31,792
BPAG	18,557	31	5	18,593	15,983	19	7	16,009
	355,913	1,247	277	357,437	360,610	1,198	245	362,053
	$ 366,466	$ 1,447	$ 282	$ 368,195	$ 362,011	$ 1,198	$ 245	$ 363,454

Restricted securities as of December 31, 2021 and 2020 correspond to collateral granted in repurchase agreements.

b. Available-for-sale securities

	2021				2020			
Unrestricted securities	Acquisition cost	Interest	Valuation	Fair value	Acquisition cost	Interest	Valuation	Fair value
Federal Government Bonds (USD)	$ 2,048	$ 37	$ 133	$ 2,218	$ 1,988	$ 36	$ 352	$ 2,376
EUROBONDS (USD)	1,689	17	38	1,744	1,638	16	92	1,746
Securities exchange certificates (GF)	5,720	150	83	5,953	5,655	150	798	6,603
Private securities exchange certificates	1,594	16	84	1,694	829	2	172	1,003
State and Municipal Securities Exchange Certificate	2,517	15	129	2,661	2,401	15	367	2,783
State and Municipal Securities Exchange Certificate	787	11	11	809	54	1	6	61
Foreign issued debt securities	195	1	4	200	8	-	1	9
	14,550	247	482	15,279	12,573	220	1,788	14,581
Restricted titles								
Securities exchange certificates Private	-	-	-	-	779	12	94	885
Bank stock certificates	-	-	-	-	593	8	76	677
	-	-	-	-	1,372	20	170	1,562
	$ 14,550	$ 247	$ 482	$ 15,279	$ 13,945	$ 240	$ 1,958	$ 16,143

As of December 31, 2021 and 2020, the securities available for sale are subject to hedging with derivative financial instruments. The effects of the valuation are presented as follows:

	2021	2020
Valuation of available-for-sale securities	$ 482	$ 1,958
Gain or loss on valuation attributable to the hedged risk (1)	(1,868)	(4,024)
Others	(4)	(4)
Gain or loss on valuation of available-for-sale securities (Earned capital)	$ (1,390)	$ (2,070)

(1) Recognized in the caption of Intermediation income

c. Held-to-maturity securities

At December 31, 2021 and 2020, held-to-maturity securities are summarized as follows:

Unrestricted securities	Due date	2021	2020
Stock certificates	March 2023 and February 2021	$ 4,725	$ 1,018
Private Stock Certificates	September 2022 and April 2021	2,034	436
Certificates of Deposit	May 2022 and February 2021	302	604
Federal Government Securities Exchange Certificates	May 2022	2,005	2,005
		9,066	4,063
Restricted securities			
Securities exchange certificates	April 2021	-	5,330
Securities exchange certificates Private	April 2021	-	1,948
Federal Government Bonds	November 2021	-	149
		-	7,427
		$ 9,066	$ 11,490

At December 31, 2021 and 2020, uncollected accrued interest on held-to-maturity securities amounts to $20 and $28, respectively.

At December 31, 2021 and 2020, interest earned on investments in securities amounts to $19,301 and $22,806, respectively (Note 26).

8. Repos trading

a. Summary

At December 31, 2021 and 2020, current repurchase agreements repos are summarized below:

	2021		2020	
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	-	$ 2,643	$ 600	$ 4,422
Fixed rate bonds	-	200	-	-
BPAS	-	25,452	-	38,676
BPAG28	-	18,588	-	16,002
BPAG91	-	31,041	600	31,727
CEBIC	$ 500	-	500	-
Securities exchange certificates (GF)	-	5,016	-	3,873
Securities exchange certificate	-	13,916	-	20,435
Deposit certificates	-	704	-	707
Private stock deposits	-	-		2,436
Certificates stock deposits	-		-	186
BONDES D (Federal Government Development Bonds)	4,085	226,536	2,445	251,807
BONDES F (Federal Government Development Bonds)	-	32,041	-	-
UDIBONOS	-	1,032	250	-
	4,585	$ 357,169	4,395	$ 370,271
Less:				
Collateral securities sold or pledged (1)				
CEBIC	500		500	
CETES	-		600	
BPAG91	-		600	
BONDES D (Federal Government Development Bonds)	4,085		2,445	
UDIBONOS	-		250	
	4,585		4,395	
Debtors under security repurchase agreements	$ -		$ -	

(1) At December 31, 2021 and 2020, the effect of valuation of collateral sold or pledged amounts to $(1), and $(8), 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, 2021 and 2020, accrued interest earned in repurchase transactions repos amounts to \$334 and \$1,482, respectively, whereas interest payable in repurchase transactions repos amounts to \$16,654 and \$21,353, respectively (Note 26).

c. Terms and instruments

The average term of repurchase transactions repos at December 31, 2021 and 2020 ranges between 1 and 58 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 (BONDESD and BONDESF, 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)

9. Derivatives and hedge trading

At December 31, 2021 and 2020, current derivative financial instruments trading is shown below:

	2021				
	Amount		Presentation		
	Assets	Liabilities	Assets	Liabilities	Net
For trading purposes					
Trading swaps:					
U.S. dollar/Peso	$ 1,349	$ 797	$ 552	-	$ 552
Peso/U.S. dollar	5,144	7,754	-	$ 2,610	(2,610)
U.S. dollar/Peso	8,533	8,029	2,422	1,918	504
UDIS/Peso	2,111	1,008	1,103	-	1,103
Peso/UDIS	1,008	2,109	-	1,101	(1,101)
YEN/Peso	8,665	1,629	7,036	-	7,036
Interest rates	31,757	31,444	2,380	2,067	313
Total trading securities	58,567	52,770	13,493	7,696	5,797
For hedging purposes:					
Fair value hedge swaps:					
UDIS/Peso	21,002	17,361	3,641	-	3,641
Peso/UDIS	10,986	15,354	-	4,368	(4,368)
U.S. dollar/Peso	1,837	1,378	460	1	459
Peso/U.S. dollar	4,212	5,667	-	1,455	(1,455)
Interest rates	71,117	69,765	3,448	2,096	1,352
	109,154	109,525	7,549	7,920	(371)
Cash flow hedge swaps:					
Peso/Peso					
U.S. dollar/Peso	250	230	23	3	20
	250	230	23	3	20
Total for hedging purposes	109,404	109,755	7,572	7,923	(351)
	$ 167,971	$ 162,525	$ 21,065	$ 15,619	$ 5,446

	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

The valuation effect of derivative financial trading, as well as hedged items are recognized in the caption of Intermediation income. At December 31, 2021 and 2020, this effect represented an unrealized gain amounting to $1,967 and $1,329, respectively (Note 27). At December 31, 2021 and 2020, hedges maintain efficiency between 80% and 125% required by the accounting criteria of the CNBV.

At December 31, 2021 and 2020, 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:

	2021			
	Notional amount	Interest	Valuation	Fair value
Swaps for trading purposes:				
Swaps U.S. dollar/Peso				
Asset-U.S. dollar	$ 1,161	-	$ 188	$ 1,349
Liability – Peso	731	-	66	797
	430	-	122	552
Swaps Peso/U.S. dollar				
Asset – Peso	5,162	$ 43	(61)	5,144
Liability - U.S. dollar	7,441	17	296	7,754
	(2,279)	26	(357)	(2,610)
Swaps U.S. dollar/U.S. dollar				
Asset – U.S. dollar	1	85	8,447	8,533
Liability - U.S. dollar	1	76	7,952	8,029
	-	9	495	504
Swaps UDIS/Peso				
Assets – UDIS	1,950	10	151	2,111
Liability – Peso	1,008	-	-	1,008
	942	10	151	1,103
Swaps Peso/UDIS				
Asset – Peso	1,008	-	-	1,008
Liability – UDIS	1,950	10	149	2,109
	(942)	(10)	(149)	(1,101)
Swaps YEN/Peso **(1)**				
Assets – YEN	6,578	2	2,085	8,665
Liability – Peso	384	1	1,244	1,629
	6,194	1	841	7,036
Interest rate swaps				
Assets	544	999	30,214	31,757
Liabilities	544	994	29,906	31,444
	-	5	308	313
Total swaps for trading purposes	4,345	41	1,411	5,797
Net position for trading purposes	4,345	41	1,411	5,797
Fair value hedge:				
Swaps UDIS/Peso				
Assets – UDIS	20,006	223	773	21,002
Liability – Peso	17,031	31	299	17,361
	2,975	192	474	3,641
Swaps Peso/UDIS				
Asset – Peso	10,415	18	553	10,986
Liability – UDIS	13,413	100	1,841	15,354
	(2,998)	(82)	(1,288)	(4,368)
Swaps U.S. dollar/Peso				
Asset – U.S. dollar	1,837	2	(2)	1,837
Liability – Peso	1,456	2	(80)	1,378
	381	-	78	459
Swaps Peso/U.S. dollar				
Asset – Peso	3,537	8	667	4,212
Liability - U.S. dollar	3,732	62	1,873	5,667
	(195)	(54)	(1,206)	(1,455)
Interest rate swap				
Asset – Peso	32,454	1,528	37,135	71,117
Liability – Peso	32,454	1,194	36,117	69,765
	-	334	1,018	1,352
Total fair value hedge	163	390	(924)	(371)
Cash flow hedge:				
Interest rate swaps				
Asset – U.S. dollar	245	-	5	250
Liability – Peso	227	1	2	230
	18	(1)	3	20
Net position designated as a hedge	$ 181	$ 389	$ (921)	$ (351)

	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)

As of December 31, 2021 and 2020, there are cash backed guarantees in connection with derivative financial trading in the amount of $6,417 and $20,384, respectively (Note 13). Moreover, cash backed guarantees were received in the amount of $769 and $3,202, respectively, which are reported in the caption of collateral payable received in cash.

As of December 31, 2021 and 2020, the Institution neither delivered nor received guarantees on debt instruments (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, 2021, this extinguishing amortizing cross currency swap operation reports a net valuation amounting to $7,036 ($8,959 in December 2020), 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, 2021 and 2020 meant an unrealized loss amounting to $1,261 and $1,147, respectively with a 0.00429516803814186% and 0.00290586642752325% 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, 2021 and 2020, the effect of valuation (credit balance) attributable to the hedged risk of the loan portfolio amounts to $286 and $404, respectively. At those same dates, the positions in derivatives that hedge those portfolios have an aggregate notional amounting to $30,360 and $32,568, respectively.

11. Loan portfolio

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

At December 31, 2021 and 2020, the loan portfolio is summarized as follows:

	2021			
	Principal	Interest	Valuation (1)	Total
Current loan portfolio				
Commercial credits				
Business or commercial activity	$ 139,255	$ 1,111	$ 1,118	$ 141,484
Financial entities	27,763	316	-	28,079
Governmental entities	329,794	985	(1,913)	328,866
Consumer credit	-	-	-	-
Housing credit				
Medium class and residential	82	-	-	82
Loans granted as an Agent of the Federal Government	452	2	-	454
Total current loan portfolio	497,346	2,414	(795)	498,965
Past-due loan portfolio				
Commercial credits				
Business or commercial activity	9,916	164	-	10,080
Consumer credit	10	-	-	10
Housing credit				
Medium class and residential	46	1	-	47
Total past-due loan portfolio	2,972	165	-	10,137
Total loan portfolio	$ 507,318	$ 2,579	$ (795)	$ 509,102

	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

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

For the years ended 2021 and 2020, interest and commissions earned by the Institution for loan portfolio amounted to $29,216 and $32,699, respectively (Note 26).

b. Summary of the portfolio by currency

At December 31, 2021 and 2020, the analysis of the loan portfolio by currency is as follows:

	2021			
	Mexican pesos	Foreign currency translated into Mexican pesos	UDIS translated into Mexican pesos	Total
Current loan portfolio:				
Commercial credits				
Business or commercial activity	$ 106,087	$ 29,477	$ 4,802	$ 140,366
Financial entities	22,871	5,208	-	28,079
Governmental entities	326,241	-	4,538	330,779
Consumer credit	-	-	-	-
Housing credit				
Medium class and residential	82	-	-	82
Loans granted as an Agent of the Federal Government	-	454	-	454
	455,281	35,139	9,340	499,760
Valuation of hedged items				
Commercial credits				
Business or commercial activity	565	-	553	1,118
Governmental entities	(2,098)	-	185	(1,913)
Total valuation of hedged items	(1,533)	-	738	(795)
	453,748	35,139	10,078	498,965
Past-due portfolio				
Commercial credits				
Business or commercial activity	7,287	2,793	-	10,080
Consumer credit	10	-	-	10
Housing credit				
Medium class and residential	47	-	-	47
	7,344	2,793	-	10,137
Total loan portfolio	$ 461,092	$ 37,932	$ 10,078	$ 509,102

	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

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 an unconditional and irrevocable guarantee rating, which covers the principal and accessories, granted by a foreign financial institution or entity that has a minimum investment grade, among other things, may exceed the maximum limit applicable to the financing entity in question, but in no case may they represent more than 100% of the basic capital of the Institution, for each person or group of persons that constitute common risk. As long as the aforementioned guarantees can be executed immediately and extrajudicially at the expiration of the financing, if it is not covered.

At December 31, 2021 and 2020, the Institution complies with the limits described above.

ii. Main financing for own account[1]

Upon considering the guidelines of Article 53 of the Provisions, no borrower or economic group exceeds 40% of the basic capital under the common risk criterion nor 100% to the borrowers defined in subsections II and III of that Article. Moreover, in accordance with the provisions in subsection I, the three main borrowers subject to concentration limits do not exceed 100% of the basic capital of the Institution, which amounted to $75,120.7 million pesos as of September 30, 2021.

The maximum amount of financing payable by the 3 main borrowers, whose sum must not exceed 100% of the basic capital, amounted to $33,938 y $34,846 respectively[2], which represented 45.2% and 52.7% of the basic capital, as appropriate.

As of December 31, 2021, the Institution maintains 22 financings granted in the amount of $730,630 (including financial instruments) that exceed 10% of the basic capital and that represent 9.7 times the basic capital of the institution.

iii. By economic, sector

At December 31, 2021 and 2020, the loan portfolio of the Institution, considering the activity of borrowers, is shown below:

	2021		2020	
	Amount	%	Amount	%
Federal Government (1)	$ 61,941	13%	$ 60,235	12%
State governments, decentralized public agencies and government-owned companies, agencies, and federal entities	264,402	52%	259,496	52%
Other public financial entities	4,890	1%	757	1%
Full-Service Banking	16,768	3%	17,392	3%
Other private financial entities	11,311	2%	11,051	2%
National entities	149,871	29%	145,833	29%
Individuals	139	-	155	-
Public development funds (1)	-	-	-	-
Foreign companies	575	-	659	1%
	509,897	100%	495,578	100%
Valuation of hedged items	(795)		9,641	
	$ 509,102		$ 505,219	

(1) At December 31, 2021 and 2020, the portfolio payable by the Federal Government, including public development funds in the fiscal year, is summarized as follows:

	2021			2020		
	Principal	Interests	Total	Principal	Interests	Total
Loans granted as an Agent of the Federal Government	$ 452	$ 2	$ 454	$ 514	$ 2	$ 516
Portfolio for its own account	61,381	106	61,487	59,625	94	59,719
	61,833	108	61,941	60,139	96	60,235
Valuation of hedged items	(110)	-	(110)	287	-	287
	$ 61,723	$ 108	$ 61,831	$ 60,426	$ 96	$ 60,522

iv. By region

At December 31, 2021 and 2020, the loan portfolio of the Institution, considering the region where its borrowers are located, is as follows:

[1] Pursuant to the provisions of the last paragraph of Article 57 of the General Provisions applicable to Credit Institutions, in this section all references to basic capital or net capital correspond to the closing amount of the immediately preceding trimester.
2 Including financial instruments.

Zone	2021 Amount	2021 Percentage of concentration	2020 Amount	2020 Percentage of concentration
Loan portfolio:				
Qualifiable				
Central	$ 166,964	33%	$ 163,070	33%
North	125,262	24%	125,693	25%
South	150,841	30%	145,822	29%
Exempted:				
Central	61,940	12%	60,236	13%
Reserved 0.5%:				
Central	4,890	1%	757	-
	509,897	100%	495,578	100%
Valuation of hedged items	(795)		9,641	
	$ 509,102		$ 505,219	

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

The troubled loan portfolio at December 31, 2021 and 2020 is summarized as follows:

	2021			2020		
Commercial credits	Current portfolio	Past- due portfolio	Total	Current portfolio	Past- due portfolio	Total
Business or commercial activity	$ 6,685	$ 10,080	$ 16,765	$ 7,086	$ 2,529	$ 9,615
Governmental entities	458	-	458	31	-	31
Consumer credit	-	10	10	-	10	10
Housing credit						
Medium class and residential	7	47	54	10	45	55
Troubled loan portfolio	7,150	10,137	17,287	7,127	2,584	9,711
Non-troubled loan portfolio	492,610	-	492,610	485,867	-	485,867
Valuation of hedged items	(795)	-	(795)	9,641	-	9,641
	$ 498,965	$ 10,137	$ 509,102	$ 502,635	$ 2,584	$ 505,219

At December 31, 2021 and 2020, the troubled loan portfolio includes uncollected accrued interest in the amount of $212 and $112, respectively.

e. Restructured loan portfolio

Commercial credits	2021	2020
Business or commercial activity	$ 84,807	$ 75,387
Governmental entities	125,399	125,311
	$ 210,206	$ 200,698

At December 31, 2021 and 2020, 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 $961 and $1,173, respectively.

f. Past-due loan portfolio

Aging

At December 31, 2021 and 2020, the past-due loan portfolio in accordance with its age is classified as follows:

Commercial credits	From 1 to 180 days	From 181 to 365 days	From 366 to 2 years	More than 2 years	Total
	Principal and interest 2021				
Business or commercial activity	$ 7,617	-	$ 149	$ 2,314	$ 10,080
Consumer credit	-	-	10	-	10
Housing credit					
Medium class and residential	3	$ 1	2	41	47
	$ 7,620	$ 1	$ 161	$ 2,355	$ 10,137

Commercial credits	From 1 to 180 days	From 181 to 365 days	From 366 to 2 years	More than 2 years	Total
	Principal and interest 2020				
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

Movements

At December 31, 2021 and 2020, the movements presented in the past-due loan portfolio is summarized as follows:

	2021	2020
Opening Balance	$ 2,584	$ 2,473
Increases:		
Reclassification from current to past-due loan portfolio	8,411	-
Valuation of foreign currency	89	113
Decreases:		
Valuation of foreign currency	-	-
Recoveries	338	2
Reclassification from past-due loan to performing portfolio	609	-
Final balance	$ 10,137	$ 2,584

g. Financial lease

At December 31, 2021 and 2020, transactions have been recorded under the modality of financial leasing, whose outstanding balance amounts to $10,454 and $12,296, 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, 2021 and 2020, 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:

	2021	2020
Loan portfolio (advances)	$ 10,454	$ 12,296
Unleased financial assets	-	94
Formalized commitments	-	148

At December 31, 2021 and 2020, the Institution did not enter into financial lease agreements.

h. Special Accounting Criteria (CCE)

As of December 31, 2021, 7 credits were incorporated into the temporary support program named CCE. 1 correspond to Credits with a business or commercial activity and 6 Credits to governmental entities. The captions approved correspond to deferring the payment on principal and interest. whereas 15 credits were reported as of December 31, 2020; 5 correspond to Credits with a business or commercial activity and 10 to credits of government entities. The captions approved also correspond to the deferred payments on capital and interest. The financial impacts are discussed in detail in Note 3.

12. Allowance for loan losses

At December 31, 2021 and 2020, as a result of the rating of the total ratable portfolio, the amount of the allowance for loan losses is summarized as follows:

	2021	2020
Commercial credits (a)		
Business or commercial activity (a.1)	$ 8,686	$ 5,983
Financial entities (a.2)	327	349
Governmental entities (a.3)	2,220	1,893
Consumer credit (b)	9	9
Housing credit		
Medium class and residential (c)	33	33
	11,275	8,267
For guarantees and contingent lines of credit (d)	961	675
For additional reserves:		
Recognized by the CNBV (e)	2,556	2,893
	76	-
	$ 14,868	$ 11,835

At December 31, 2021 and 2020, the loan portfolio risk rating is presented below:

a. Commercial credits

a.1 Business or commercial activity

	2021		2020	
Degree of risk	Exposure	Expected loss	Exposure	Expected loss
A-1	$ 107,061	$ 550	$ 126,818	$ 634
A-2	3,348	37	799	9
B-1	14,085	265	-	-
B-2	5,367	133	7,654	187
B-3	1,286	52	1,605	63
C-1	2,533	136	-	-
C-2	3,934	603	2,806	430
D	10,368	4,446	2,086	523
E	2,464	2,464	4,723	4,137
Total	$ 150,446	$ 8,686	$ 146,491	$ 5,983

a.2 Financial entities

	2021		2020	
Degree of risk	Exposure	Expected loss	Exposure	Expected loss
A-1	$ 21,608	$ 125	$ 21,849	$ 137
A-2	1,263	14	1,523	21
B-1	98	2	-	-
B-3	5,111	186	5,071	191
Total	$ 28,080	$ 327	$ 28,443	$ 349

a.3 Governmental entities

Degree of risk	2021 Exposure	2021 Expected loss	2020 Exposure	2020 Expected loss
A-1	$ 173,994	$ 891	$ 164,556	$ 705
A-2	46,386	437	81,842	831
B-1	38,700	550	1,527	20
B-2	-	-	2,674	40
B-3	6,951	182	7,448	217
C-1	2,803	121	2,175	75
C-2	436	35	7	1
D	22	4	24	4
Total	$ 269,292	$ 2,220	$ 260,253	$ 1,893

At December 31, 2021 and 2020, 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 $24 and $4, respectively.

b. Consumer credit

Degree of risk	2021 Exposure	2021 Expected loss	2020 Exposure	2020 Expected loss
A-1(*)	-	-	-	-
A-2(*)	-	-	-	-
B-1(*)	-	-	-	-
C-1(*)	-	-	-	-
C-2(*)	-	-	-	-
D(*)	-	-	-	-
E	$ 10	$ 9	$ 10	$ 9
Total	$ 10	$ 9	$ 10	$ 9

(1) Amounts lower than one million Mexican pesos

c. Medium class and residential

Degree of risk	2021 Exposure	2021 Expected loss	2020 Exposure	2020 Expected loss
A-1(*)	$ 27	-	$ 33	-
A-2(*)	10	-	5	-
B-1(*)	2	-	1	-
B-2(*)	17	-	26	-
B-3(*)	8	-	14	-
C-1(*)	11	-	10	-
C-2	11	$ 1	16	$ 2
D	12	3	8	2
E	31	29	32	29
Total	$ 129	$ 33	$ 145	$ 33

(*) Amounts lower than one million Mexican pesos

d. Guarantees and contingent lines of credit

Degree of risk	2021 Exposure	2021 Expected Loss	2020 Exposure	2020 Expected Loss
A-1	$ 99,097	$ 535	$ 94,141	$ 410
A-2	189	2	15,318	175
B-1	9,125	139	45	1
B-2	199	4	305	7
B-3	3,391	106	2,966	81
C-1	8	1	18	1
D	387	174	-	-
Total	$ 112,396	$ 961	$ 112,793	$ 675

e. At December 31, 2021 and 2020, the balance of additional reserves recognized by the CNBV are summarized as follows:

	2021	2020
State and municipal governments (global)	$ 540	$ 656
Companies (business activity) (a)	2,016	2,237
	$ 2,556	$ 2,893

As of December 31, 2021, the balance of the portfolio payable by the Federal Government exempted and reserved at 0.5% amounts to $61,940 and $39,890, respectively, whereas in 2020 the amounts were $60,235 and $35,757, respectively. The amount of the reserved portfolio at 0.5% includes the loan portfolio net of accrued interest and contingent lines.

The universe of the total rated portfolio at December 31, 2021 and 2020 amounted to $560,353 and $548,135, 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, 2021 and 2020, the universe of the rated portfolio is summarized as follows:

Rated loan portfolio:	2021	2020
Balance Sheet:		
Portfolio	$ 509,897	$ 495,577
Valuation of the hedged item	(795)	9,641
Total portfolio balance sheet	509,102	505,218
Memorandum accounts	112,396	112,793
	621,498	618,011
Excepted Federal Government Portfolio	(61,940)	(60,235)
Valuation of the hedged item	795	(9,641)
	(61,145)	(69,876)
Rated portfolio	$ 560,353	$ 548,135

At December 31, 2021 and 2020, the movements of the Allowance for loan losses are presented below:

	2021	2020
Opening Balance	$ 11,835	$ 10,990
Allowance for loan losses	3,369	980
Additional estimates for the year (1)	1,511	383
Release of additional estimates (2)	(1,847)	(518)
Final balance	$ 14,868	$ 11,835

(1) At December 31, 2021 and 2020, additional reserves were created recognized by the CNBV for risks not foreseen in the rating methodologies of the loan portfolio in the amount of $1,511 and $383, respectively.

(2) At December 31, 2021 and 2020, additional reserves were applied recognized by the CNBV for risks not foreseen in the rating methodologies of the loan portfolio in the amount of $1,847 and $518, respectively.

For the years ended December 31, 2021 and 2020, the gain or loss on the Allowance for loan losses amounted to $2,993 and $783, respectively.

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

As of December 31, 2021, 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, 2021 and 2020, the caption of other receivables is summarized as follows:

	2021	2020
VAT loan portfolio operations	$ 4,066	$ 4,556
Employee loans (1)	2,241	2,273
Debtors for collateral granted in cash (2)	6,417	20,384
Other accounts receivables (3)	637	197
	13,361	27,410
Allowance for uncollectible or doubtful accounts	(77)	(28)
	$ 13,284	$ 27,382
Balance as an Agent of the Supporting Fund Mandate to States and Municipalities (FOAEM) (4)	$ 10	$ 44

(1) At December 31, 2021 and 2020, employee's loans are summarized as follows:

Type of loan	2021	2020	Annual rate	Term
Short-term	$ 4	$ 3	-	Up to 24 months
Medium-term	982	968	4%	Up to 6 years
Mortgage	805	823	4% the first 15 years and 6% the last 5 years	Up to 20 years
Special for savings	450	477	1%	3 to 6 years
Special transportation	-	2	-	Up to 3 years
	$ 2,241	$ 2,273		

(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, 2021 and 2020, interest earned on these guarantees amounted to $449 and $848, respectively (Note 26).

(3) At December 31, 2021 and 2020, other accounts receivables are summarized as follows:

	2021	2020
Other accounts receivables:		
Tax recoverable balances	$ 492	$ 73
Other debts on derivative financial trading	24	38
Receivables for commissions on current trading activities	49	25
Trust company fees	54	52
Others	18	9
	$ 637	$ 197

(4) At December 31, 2021 and 2020, the balance as a FOAEM mandate agent is summarized as follows:

Asset balances:	2021	2020
For own account		
Exchange rate fluctuations	$ 37	$ 111
Others	-	6
Total balances due from the FOAEM	37	117
Liability balances:		
For own account		
Restatement of investment units	22	63
Others	-	5
	22	68
By financial agent		
Restatement of investment units	5	5
	5	5
Total balances due to the FOAEM	27	73
Assets as an agent of the FOAEM mandate	$ 10	$ 44

As of December 31, 2021, the asset notional value corresponding to the foreign currency liability of the operations of the FOAEM is equivalent to 3 million USD. The liability notional value relative to the asset in UDIS amounts to 3 million UDIS, whereas as of December 31, 2020, the asset notional value corresponding to the foreign currency liabilities is equivalent to 12 million USD, and the liability notional value relative to the asset in UDIS amounts to 5 million UDIS.

14. Property, furniture and equipment (net)

At December 31, 2021 and 2020, this item is summarized as follows:

	2021			2020		
	Asset value	Accumulated depreciation	Rates	Asset value	Accumulated depreciation	Rates
Land	$ 168	-		$ 168	-	
Buildings	468	$ 124		468	$ 119	(1)
Furniture and office equipment	87	82	10%	87	80	10%
Computer equipment	25	25	30%	25	25	30%
Transportation equipment	12	12	25%	12	12	25%
Total fixed assets	760	$ 243		760	$ 236	
	$ 517			$ 524		

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

At December 31, 2021 and 2020, depreciation amounts to $6 and $10, respectively.

15. Permanent investments

At December 31, 2021 and 2020, the balance of permanent investments is summarized as follows:

		2021		2020	
	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
Corporación 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, 2021 and 2020, this item is comprised of the following items:

	2021	2020
Other assets, deferred charges, and intangibles (1)	$ 230	$ 483
Labor obligations (Note 21)	2,703	3,297
	$ 2,933	$ 3,780

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

Item	Balance 2020	Additions	Applications	Balance 2021
Recoverable tax balances (ISR)	$ 441	$ 77	$ 441	$ 77
Service providers and supervision agencies	4	258	152	110
Issue of bonds and securities exchange certificates	38	54	49	43
	$ 483	$ 389	$ 642	$ 230

17. Deposit funding

At December 31, 2021 and 2020, traditional deposits are summarized as follows:

	2021	2020
Time deposit		
Money market (a)	$ 384,404	$ 375,078
Debt securities issued (b)	74,012	66,832
	$ 458,416	$ 441,910

(a) Time deposit - Money market

At December 31, 2021 and 2020, this caption is summarized as follows:

	2021	2020
Promissory notes with liquid yield at maturity (PRLV-Spanish acronym)	$ 317,816	$ 311,182
Certificates of deposit (1)	62,910	61,248
Time deposit in U.S. dollars	3,678	2,648
	$ 384,404	$ 375,078

At December 31, 2021 and 2020, the issue of long-term PRLVs amounts to $7,652 and $8,268, and accrued interest amounts to $7,161 and $6,344, respectively.

(1) At December 31, 2021 and 2020, the Institution has outstanding bank securities in local and foreign currency as follows:

	2021					
	Number of titles	Nominal value (ii)	Principal	Interest	Valuation hedged item (i)	Total
Certificates of deposit						
FBANOBRA (iii)	434,250,000	100 MN	$ 43,185	$ 140	$ (110)	$ 43,215
FBANOBRAU	20,100,635	100 UDIS	14,288	171	549	15,008
FBANOBRAD	2,285,479	100 USD	4,687	-	-	4,687
	456,636,114		$ 62,160	$ 311	$ 439	$ 62,910

	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

(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, 2021 and 2020, the Institution maintains a zero coupon issue. At those same dates, the Institution maintains an issue placed at a discount (Note 2, section s paragraph six).

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

	2021		2020	
Issue in Mexican pesos:	Interest rate divided by %	Terms divided by days	Interest rate divided by %	Terms divided by days
Securities exchange PRLVs	3.40 y 5.94	1 y 364	4.00 y 7.45	1 y 364
Long-term PRLV	15.80 y 17.76	6,621 y 6,782	13.23 y 18.47	6,577 y 7,301
Certificates of deposit:				
Mexican pesos	4.11 y 14.50	2 y 3,771	4.36 y 14.50	3 y 4,137
UDIS	0.45 y 6.11	2 y 10,537	0.45 y 6.11	14 y 10,903
Foreign currency	0.10 y 0.21	1 y 79	0.14 y 1.85	1 y 167
Deposits in US dollars	0.05 y 0.13	1 y 49	0.06 y 1.58	1 y 49

During fiscal year 2021, the Institution redeemed the PRLV titles that are detailed below:

Number	Number of titles	Redemption date
ILBANOBRA 01MORP(1)	89,505,613	August 24, 2021
ILBANOBRA 02MORP(1)	92,304,100	August 24, 2021
ILBANOBRA03MORP(1)	84,185,500	August 24, 2021
ILBANOBRA 04MORP(1)	6,118,054	August 24, 2021
ILBANOBRA 05MORP(1)	39,088,827	August 24, 2021
ILBANOBRA01MORF(2)	280,575,000	August 24, 2021
ILBANOBRA02MORF(2)	326,032,025	August 24, 2021
ILBANOBRA03MORF (2)	75,933,786	August 24, 2021
ILBANOBRA04MORF (2)	130,589,571	August 24, 2021
ILBANOBRA1MORFB(2)	166,152,808	August 24, 2021
ILBANOBRA05MORF(2)	64,422,560	August 24, 2021
ILBANOBRA06MORF(2)	61,243,921	August 24, 2021
ILBANOBRA07MORF(2)	71,951,876	August 24, 2021
ILBANOBRA 01JBJC(3)	84,167,538	September 14,2021
ILBANOBRA 02JBJC(3)	28,634,406	September 14,2021
ILBANOBRA 03JBJC(3)	16,655,173	September 14,2021
ILBANOBRA 04JBJC(3)	33,253,187	September 14,2021
ILBANOBRA 01JBCD(3)	15,588,725	September 14,2021
ILBANOBRA 05JBJC(3)	26,052,802	September 14,2021
ILBANOBRA 06JBJC(3)	25,456,012	September 14,2021
ILBANOBRA 07JBJC(3)	30,512,079	September 14,2021

Number	Number of titles	Redemption date
ILBANOBRA 08JBJC(3)	49,821,561	September 14, 2021
ILBANOBRA 09JBJC(3)	38,897,041	September 14, 2021
ILBANOBRA 10JBJC(3)	36,367,964	September 14, 2021
ILBANOBRA 01JBJD(3)	67,632,548	September 14, 2021
ILBANOBRA 11JBJC(3)	26,951,685	September 14, 2021
ILBANOBRA 01JBJF(3)	37,314,622	September 14, 2021
ILBANOBRA 02JBCB(3)	65,883,014	September 14, 2021
ILBANOBRA 03JBCB(3)	15,367,722	September 14, 2021
ILBANOBRA 04JBCB(3)	17,103,540	September 14, 2021
ILBANOBRA 05JBCB(3)	15,032,408	September 14, 2021
ILBANOBRA 02JBJF(3)	15,155,043	September 14, 2021
ILBANOBRA 03JBJF(3)	15,000,000	September 14, 2021
ILBANOBRA 04JBJF(3)	15,000,000	September 14, 2021
ILBANOBRA06JBCB(3)	22,565,796	September 14, 2021
ILBANOBRA07JBCB(3)	15,583,950	September 14, 2021
ILBANOBRA08JBCB(3)	15,438,766	September 14, 2021
ILBANOBRA02JBJD(3)	26,384,117	September 14, 2021
ILBANOBRA09JBCB(3)	23,298,394	September 14, 2021
ILBANOBRA10JBCB(3)	30,503,637	September 14, 2021
ILBANOBRA05JBJF (3)	15,244,059	September 14, 2021
ILBANOBRA11JBCB(3)	17,618,658	September 14, 2021
ILBANOBRA06JBJF(3)	5,251,402	September 14, 2021
ILBANOBRA 001COL(4)	280,948,782	November, 04, 2021
ILBANOBRA 01COLP(5)	50,000,000	November, 04, 2021
ILBANOBRA 02COLP(5)	109,963,093	November, 04, 2021

The authorization documents of Banco de México are the following: (1) OFI003-34001 of August 4, 2021, (2) OFI003-34000 of August 4 2021, (3) OFI003-33825 of July 23 2021, (4) OFI003-34220 of September 9 2021 and (5) OFI003-34221 of September 9 2021.

As of December 31, 2020, the Institution did not redeem term deposit securities.

Number	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 07, 2020
ILBANOBRA 02CHIH (3)	1,200,000,000	January 07, 2020
ILBANOBRA 03CHIH (3)	400,000,000	January 07, 2020
ILBANOBRA 04CHIH (3)	400,000,000	January 07, 2020
ILBANOBRA 05CHIH (3)	400,000,000	January 07, 2020

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

(b) Debt securities issued

At December 31, 2021 and 2020, the Institution has outstanding bank values or securities in local and foreign currency as follows:

	2021					
	Number of titles	Nominal value (ii)	Principal	Interest	Valuation hedged item (i)	Total
Securities exchange certificate						
CDBANOB (iii)	593,600,000	100 MN	$ 59,324	$ 621	$ (731)	$ 59,214
CDBANOBU	11,637,535	100 UDIS	8,272	56	(109)	8,219
Securities outstanding abroad						
JBANOB	37	1,000,000,000 YEN	6,578	1	-	6,579
	605,237,572		$ 74,174	$ 678	$ (840)	$ 74,012

	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 (iv)	37	1,000,000,000 YEN	7,136	1	-	7,137
	539,233,361		$ 63,944	$ 480	$ 2408	$ 66,832

(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, 2021 and 2020, 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:

	2021		2020	
Securities exchange certificates:	Interest rate divided by %	Terms divided by days	Interest rate divided by %	Terms divided by days
Mexican pesos	4.19 and 8.29	5 and 3,623	4.44 and 8.29	31 and 3,407
UDIS	2.97 and 3.96	5 and 5,443	2.97 and 3.96	309 and 5,227

During fiscal 2021 and 2020, the Institution did not redeem debt securities debt securities issued early.

At December 31, 2021 and 2020, 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, 2021, the amount of commissions paid and other expenses amounted to $22 and $21, respectively (as of December 31, 2020, $19 and $20, respectively).

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

	2021	2020
Promissory notes with liquid yield at maturity (PRLV-Spanish acronym)	$ 1,145	$ 1,116
Certificates of deposit (CEDES)	58	54
Securities exchange certificates (CEBURES)	13	13
	$ 1,216	$ 1,183

At December 31, 2021 and 2020, interest expenses for deposit funding and the discount for debt placement amounted to $19,911 and $23,802, respectively (Note 26).

18. Interbank loans and from other agencies

At December 31, 2021 and 2020, interbank loans and from other agencies are summarized as follows:

	2021	2020
Immediately due and payable:		
Call Money (a)	$ 270	$ 9,288
Short-term:		
Loans from Banxico (b)	4,003	9,006
Loans from Financial Institutions (c)	1,107	3,086
Loans as an Agent of the Federal Government (d)	40	43
Loans for its own account (e)	1,213	1,213
	6,363	13,348
Long-term:		
Loans as an Agent of the Federal Government (d)	413	473
Loans for its own account (e)	15,372	16,069
	15,785	16,542
Valuation of hedged items (1)	-	65
	15,785	16,607
	$ 22,418	$ 39,243

(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, 2021 and 2020, call money received is summarized as follows:

	2021				
	Mexican pesos				
Currency	Principal	Interest	Total	Rate	Term
Mexican peso	$ 270	-	$ 270	5.45%	3 days

	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		

(b) Loans from Bank of Mexico

At December 31, 2021 and 2020, loans from Banco de Mexico are summarized as follows:

	2021				
	Mexican pesos				
Currency	Principal	Interest	Total	Rate	Term
Mexican pesos	$ 1,000	$ 2	$ 1,001	5.50%	30 days
Mexican pesos	1,000	1	1,001	5.51%	25 days
Mexican pesos	2,000	-	2,000	5.52%	32 days
	$ 4,000	$ 3	$ 4,003		

	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		

(c) Loans from financial institutions

At December 31, 2021 and 2020, loans from Financial Institutions are summarized as follows:

Short-term

		2021				
Currency	Principal foreign currency	Principal Mexican pesos	Interest	Total	Rate	Term
U.S. dollar	20	$ 410	-	$ 410	0.16%	7 days
U.S. dollar	34	697	-	697	0.12%	7 days
		$ 1,107	-	$ 1,107		

		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		

(d) Loans as an Agent of the Federal Government

At December 31, 2021 and 2020, 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 2021	Outstanding balance Mexican pesos 2020	Last applicable rate
Natixis Bank:									
PROTOCOLS (i)	n/a	31	26-Ene-81	1,889	42	1,931	$ 40	$ 43	(*)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 2021	2020	Last applicable rate
Natixis Bank:									
PROTOCOLOS (i)	n/a	31	26-Ene-81	20,150	0.00	20,150	$ 413	$ 473	(*1.75)%

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

At December 31, 2021 and 2020, 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, 2021 and 2020, 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 2021	2020	Last applicable rate
(i)	1744-BID	25	06-Mar-07	6,129	597	6,726	$ 138	$ 137	(*5.27)%
(i)	7230-BIRF	18	09-Mar-05	1,891	45	1,936	40	84	(*5.60)%
(ii)	1214-OC-ME-BID	25	25-Oct-99	1,301	15	1,316	27	26	2.07%
(ii)	1383-OC-ME-BID	25	10-Mar-02	2,524	39	2,563	52	51	(*1.64)%
(ii)	1744-OC-ME-BID	25	06-Mar-07	393	16	409	8	8	1.20%
(ii)	2053-BID	25	09-Sep-07	14,691	760	15,451	317	308	(*2.60)%
(ii)	2550-BID	25	29-Nov-11	14,594	121	14,715	302	293	1.20%
(ii)	3313-BID	25	10-Dic-14	2,694	1,020	3,714	76	67	(*2.30)%
(ii)	96291-BIRF	20	21-Jul-10	6,202	17	6,219	127	124	0.75%
(ii)	7883-BIRF	13	21-Jul-10	4,889	17	4,906	101	93	0.95%
(ii)	8386-BIRF	13	13-Jun-14	1,203	4	1,207	25	22	0.80%
				56,511	2,651	59,162	$ 1,213	$ 1,213	

(*) 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 2021	2020	Last applicable Rate
(i)	1744-BID	25	06-Mar-07	57,421	57,421	$ 1,177	$ 1,303	(*5.27)%
(i)	7230-BIRF	18	09-Mar-05	-	-	-	39	(*5.60)%
(ii)	1214-OC-ME-BID	25	25-Oct-99	2,602	2,602	53	78	2.07%
(ii)	1383-OC-ME-BID	25	10-Mar-02	9,450	9,450	194	236	(*1.64)%
(ii)	1744-OC-ME-BID	25	06-Mar-07	3,733	3,733	77	82	1.20%
(ii)	2053-BID	25	09-Sep-07	176,299	176,299	3,615	3,802	(*2.60)%
(ii)	2550-BID	25	29-Nov-11	202,659	202,659	4,156	4,325	1.20%
(ii)	3313-BID	25	10-Dic-14	211,300	211,300	4,333	4,260	(*2.30)%
(ii)	96291-BIRF	20	21-Jul-10	43,411	43,411	890	988	0.75%
(ii)	7883-BIRF	13	21-Jul-10	31,917	31,917	655	733	0.95%
(ii)	8386-BIRF	13	13-Jun-14	10,814	10,814	222	223	0.80%
				749,606	749,606	$ 15,372	$ 16,069	

(*) 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
2023	$ 1,159
2024	1,160
2025	1,539
2026	1,067
2027	1,029
2028	1,030
More than 6 years	8,801
	$ 15,785

At December 31, 2021 and 2020, the Institution maintains credit lines contracted that have not been drawn down that amount to $5,658 and $5,511, respectively.

At December 31, 2021 and 2020, there are no proprietary guarantees furnished for financing received.

At December 31, 2021 and 2020, interest expenses on interbank loans amount to $851 and $996, 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, 2021 and 2020, taxes on earnings in the statement of income are summarized as follows:

	2021	2020
Income tax payable	-	-
Deferred Income Tax	$ (5,594)	$ (605)
Taxes on earnings	$ (5,594)	$ (605)

At December 31, 2021 and 2020, Income Tax payable was determined as follows:

	2021	2020
Taxable income	$ 42,341	$ 63,873
Authorized deductions	45,142	65,627
Income before deduction of PTU	(2,801)	(1,754)
PTU paid in the fiscal year	29	39
Income tax	(2,830)	(1,793)
Tax base		-
Tax rate	30%	30%
Income Tax assessed for the year	$ -	$ -

The annual tax return for fiscal 2021 has not been filed with the tax authorities yet. The term for filing that return expires on March 31, 2022; 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 2021 and 2020 fiscal years' end are summarized as follows:

	2021	2020
Deferred assets:		
Initial commissions collected	$ 834	$ 853
Allowance for loan losses	4,460	3,550
Tax loss (1)	1,529	538
Total gross deferred assets	6,823	4,941
Less valuation allowance (Allowance for loan losses)	106	3,550
Deferred assets, net	6,717	1,391
Deferred liabilities:		
Release of reserves	603	531
Derivative financial instruments	430	(90)
PTU for the year and deferred	(71)	824
Fixed asset and other deferred charges	(85)	(120)
Total deferred liabilities	877	1,145
Net deferred income tax liability (1)	$ (5,840)	$ (246)

(1) In fiscal year 2021, a net deferred tax asset was generated mainly by an increase in the allowance for credit risks, as well as by a tax loss generated in the year that will be amortized against the profits of subsequent years.

Reconciliation of the effective rate and the real income tax rate for fiscal 2021 and 2020

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, 2021 and 2020 is presented below.

	2021		
	Amount	Tax	Effective rate
Income before tax on earnings	$ (3,254)	$ 976	(30.00)%
Plus:			
Nondeductible expenses	39,639	11,892	365.00%
Taxable income	5,436	1,631	50.00%
Less:			
Deductible expenses	8,791	2,637	81.00%
Non-cumulative revenues	35,831	10,749	330.00%
Income before deduction of PTU	2,801	840	26.00%
Less:			
PTU paid in the fiscal year	29	9	00.30%
Taxable income for the year	(2,830)	(849)	26.30%
Total tax assessed		-	0.00%
Allocation to deferred tax			
Temporary items			
Release of reserves	(14,274)	(4,282)	(131.60)%
Financial instruments and derivatives	(2,985)	(895)	(27.50%
Income and expenses to be amortized	54	16	0.50%
Deferred PTU payable (in favor)	1,708	512	15.73%
Fixed assets, provisions and other deferred charges	154	46	1.40%
Tax loss for the year	(3,304)	(991)	(30.45)%
Deferred tax liability	$ (18,647)	(5,594)	(171.92)%
Taxes on earnings		$ (5,594)	(171.92)%

	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%
Deferred PTU payable (favor)	29	9	16.35%
Revenues and unamortized expenses	(98)	(30)	(53.00)%
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)%

At December 31, 2021 and 2020, the permanent items on which the statutory tax rate differs from the effective rate are summarized as follows:

	2021		2020	
	Tax	%	Tax	%
Income before tax on earnings	$ (3,254)		$ 55	
Tax expected	(976)	(30.00)	17	30.00
Increase (reduction) resulting from:				
Annual adjustment on inflation	(1,654)	(50.83)	(672)	(1,221.00)
Release of reserves	38	1.17	154	280.00
Preventive estimate for loan risks	898	27.60	235	427.00
Nondeductible expenses	45	1.39	24	43.00
Market valuation	530	16.27	(384)	(698.00)
Net cost for the period	250	7.68	187	340.00
Initial commission	(26)	(0.80)	(36)	(65.00)
Derivative Financial trading	600	18.45	(56)	(102.00)
Non-cumulative revenues	(11)	(0.33)	(25)	(45.00)
Provision of expenses and deferred employee profit sharing	(466)	(14.32)	34	62.00
Other tax losses, net	(77)	(2.37)	(16)	(29.00)
Expense (income) for income tax	$ (849)	(26.10)	$ (538)	(978.00)

Tax losses (ISR)

As of December 31, 2021 and 2020, the tax loss was $2,830 and $1,793.

b. Deferred PTU

At December 31, 2021 and 2020, the Institution recorded income from deferred PTU amounting to $1,708 and $29, respectively.

At December 31, 2021 and 2020, the effects of deferred PTU on temporary differences arising from assets and liabilities are summarized below:

	2021	2020
Deferred assets:		
Initial commissions	$ 278	$ 284
Allowance for loan losses	1,487	1,183
Total gross deferred assets	1,765	1,467
Less valuation allowance (Allowance for loan losses)	35	1,183
Deferred assets, net	1,730	284
Deferred liabilities:		
Release of reserves	201	177
Derivative financial instruments	(24)	274
Fixed assets, provisions and other deferred charges	(27)	(39)
Total deferred liabilities	150	412
Net deferred PTU liability	$ (1,580)	$ 128

20. Other liabilities and other accounts payables

At December 31, 2021 and 2020, other liabilities and other accounts payables are summarized as follows:

	2021	2020
Taxes withheld and shifted	$ 4,269	$ 4,655
Other liabilities	382	515
Unrealized allocations	213	328
Provisions for other obligations	209	98
Financial lease assets and liabilities (1)	-	54
Contributions to social security	18	17
	$ 5,091	$ 5,667

(1) During the 2021 financial year, the liquidation of the financial assets and liabilities for financial leases was carried out, so with respect to the 2020 financial year, they are integrated as follows:

	2020
Unassigned assets in financial lease agreements	$ 94
Liabilities for acquisition of assets for financial lease	148
	$ 54

21. Employee benefits

- **Defined benefit pension plan**

A reconciliation between defined benefit obligations (DBO) and plan assets (PA) at December 31, 2021 and 2020 with the liabilities recognized in the balance sheets at those dates is presented below:

	2021				
Provisions for:	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Defined Benefit Obligations (DBO)	$ (12,161)	$ (20)	$ (11,616)	$ (11)	$ (23,808)
Fair value of plan assets	13,578	10	9,502	-	23,090
Plan assets (PA)	1,417	(10)	(2,114)	(11)	(718)
Unrecognized actuarial losses	1,591	-	1,683	-	3,274
Projected net asset (liability) recognized in the balance sheet (Note 16)	$ 3,008	$ (10)	$ (431)	$ (11)	$ 2,556

Provisions for:	2020 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

The summary of the net cost for the period ended December 31, 2021 and 2020 is shown below:

	2021 Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Summary of net cost of the period 2021:					
Labor cost of present service	$ 35	$ 1	$ 52	-	$ 88
Financial cost	893	1	814	$ 1	1,709
Expected return on plan assets	(934)	(1)	(666)	-	(1,601)
Actuarial loss, net	216	2	353	(2)	569
Net cost for the period	$ 210	$ 3	$ 553	$ (1)	$ 765

	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

At December 31, 2021 and 2020, employee benefits for vested and nonvested benefit obligations are shown below:

	2021 Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Provisions for:					
Vested benefit obligation	$ 11,477	$ 18	$ 10,781	-	$ 22,275
Nonvested benefit obligation	684	2	835	$ 11	1,533
Defined Benefit Obligations (DBO)	$ 12,161	$ 20	$ 11,616	$ 11	$ 23,808

	2020 Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Provisions for:					
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

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

	2021 Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Defined benefit obligation (DBO)					
Present value of the DBO at January 1, 2021	$ 13,146	$ 20	$ 11,889	$ 14	$ 25,069
Labor cost of present service	35	1	51	-	87
Financial cost	893	1	814	1	1,709
Actuarial gain or loss on the obligation	(1,029)	2	(572)	(4)	(1,603)
Payments made	(884)	(4)	(566)	-	(1,454)
Present value of the DBO at December 31, 2021	$ 12,161	$ 20	$ 11,616	$ 11	$ 23,808

	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

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

	2021				
	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, 2021	$ 13,739	$ 13	$ 9,777	-	$ 23,529
Expected return on PA	723	1	291	-	1,015
Institution Contributions	-	-	-	-	-
Benefits paid	(884)	(4)	(566)	-	(1,454)
Fair value of PA at December 31, 2021	$ 13,578	$ 10	$ 9,502	-	$ 23,090

	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 01, 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

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, 2021, no ordinary contributions were made under this plan, while, for fiscal year 2020, the Institution made ordinary contributions for $422.

At December 31, 2021, either directly or in a repo, 34% of the total plan assets are invested in governmental debt securities and savings protection bonds in 2021 (37% in December 2020). 24% in 2021 (21% in December 2020) are invested in debt securities issued by the development bank and other entities of the public sector, and 42% in 2021 (42% in December 2020) 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, 2021, the term of the investments fluctuates between 4 days and 51 days, whereas the term fluctuated between 4 and 51 years in 2020.

At December 31, 2021 and 2020, the return on these investments amounted to $1,496 and $1,457, respectively.

Annual information relative to the different defined benefit obligations corresponding to 2021 and of the last four years is presented below:

Pensions at December 31:	2021	2020	2019	2018	2017
Defined benefit obligation, DBO	$ (12,161)	$ (13,146)	$ (12,449)	$ (10,813)	$ (11,079)
Fair value of plan assets, PA	13,578	13,739	13,074	12,043	12,277
Funded status	$ 1,417	$ 593	$ 625	$ 1,230	$ 1,198
Seniority premium at December 31:					
Defined benefit obligation, DBO	$ (20)	$ (20)	$ (18)	$ (18)	$ (21)
Fair value of plan assets, PA	10	13	10	16	19
Funded status	$ (10)	$ (7)	$ (8)	$ (2)	$ (2)

	2021	2020	2019	2018	2017
Other benefits at retirement:					
Defined benefit obligation, DBO	$ (11,616)	$ (11,889)	$ (11,015)	$ (9,334)	$ (9,235)
Fair value of plan assets, PA	9,502	9,777	8,870	8,495	8,031
Funded status	$ (2,114)	$ (2,112)	$ (2,145)	$ (839)	$ (1,204)
Termination benefits:					
Defined benefit obligation, DBO	$ (11)	$ (14)	$ (15)	$ (19)	$ (19)
Funded status	$ (11)	$ (14)	$ (15)	$ (19)	$ (19)

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

	2021	2020
Seniority premium	4	4
Pension plan	19	19
Other benefits at retirement	19	19
Indemnifications	4	4

The rates used at December 31, 2021 and 2020 in the actuarial study were as follows:

	2021	2020
Long-term inflation	3.60%	3.50%
Discount rate	8.00%	7.00%
Rate of expected salary increase	4.12%	4.02%
Expected rate of return on plan assets	8.00%	7.00%
Long-term average inflation rate	6.60%	6.60%

At December 31, 2021, 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 $10,965 ($12,661 in 2020). The effect for reducing half a percentage point in the same assumptions would amount to $12,335 ($10,942 in 2020).

- **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, 2021 and 2020, with the liabilities recognized in the balance sheets at those dates is presented below:

	2021				
	Other benefits at retirement	Termination benefits	Seniority premium	Death benefits	Total
Provisions for:					
Defined Benefit Obligations (DBO)	$ (141)	$ (135)	$ (18)	$ (30)	$ (324)
Fair value of plan assets (PA)	441	-	5	27	473
Plan assets insufficient	300	(135)	(13)	(3)	149
Actuarial gains (loss)	(2)	-	-	-	(2)
Projected net asset (liability) recognized in the balance sheet (Note 16)	$ 298	$ (135)	$ (13)	$ (3)	$ 147

	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

The summary of the net cost for the period ended December 31, 2021 and 2020 is shown below:

	2021				
	Death benefit	Seniority premium	Other benefits at retirement	Termination benefits	Total
Summary of net cost of the period 2021:					
Labor cost of present service	$ 8	$ 3	$ 26	$ 28	$ 65
Prior labor service cost	-	-	-	-	-
Financial cost	2	1	9	8	20
Expected return on plan assets	(2)	-	(30)	-	(32)
Actuarial (gain) loss, net	(1)	-	(10)	(1)	(12)
Net cost for the period	$ 7	$ 4	$ (5)	$ 35	$ 41

	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

The expected rate of return of the AP and the discount rate are determined based on the flow of expected payments achieved with the value of the duration of instruments without risk at terms of 3, 5, 10, 20 and 30 years, obtaining a curve of rates in the horizon of expected payments applying the parametric model "Nelson-Siegel". At the end, you get an equivalent rate.

As of December 31, 2021, the Institution did not make ordinary contributions, while, for fiscal year 2020, said contributions amounted to $53.

As of December 31, 2021, either directly or in a repo, 38% of the total plan assets are invested in governmental debt securities and savings protection bonds in 2021 (40% in 2020). 23% in 2021, (18% in 2020) are invested in debt securities issued by the development bank and other entities of the public sector, and 39% in 2021, (42% in 2020) 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, 2021, the term of the investments fluctuates between 3 days and 50 years, whereas the term fluctuated between 4 days and 51 years in 2020.

The real return on these investments at December 31, 2021 and 2020 amounts to $56 and $55, respectively.

At December 31, 2021, 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 $122 ($160 in 2020). The effect for reducing half a percentage point in the same assumptions would amount to $165 ($113 in 2020).

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, 2021 and 2020 amounted to $15 and $24, respectively.

b. Lawsuits and complaints

As of December 31, 2021 and 2020, the Institution is a defendant in some labor, civil and commercial lawsuits; of which there was an outflow of resources for 1 case for 2021 for an amount of ninety-five thousand five hundred and seventy-eight pesos and two cases for 2020 with an outflow of resources for $8.

c. Contingent assets and liabilities

At December 31, 2021 and 2020, contingent assets and liabilities are summarized as follows:

	2021	2020
Loan guarantees	$ 13,314	$ 13,128
Lines of contingent credit	37,365	37,719
Receivables on claims	581	563
	$ 51,260	$ 51,410

d. Credit commitments

At December 31, 2021 and 2020, the credit lines not exercised by clients of the Institution amount to $42,519 and $39,168, 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, 2021 and 2020, 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:

	2021	2020
Series "A" CAP's	11,806,239,398	10,802,605,034
Series "B" CAP's	6,082,002,114	5,564,978,351
	17,888,241,512	16,367,583,385

As of December 31, 2021 and 2020, the paid share capital amounts to $21,314 and $19,793, respectively.

	2021		2020	
	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	1,394	1,394	2,398	2,398
Series "B" CAPs	718	718	1,235	1,235
	2,112	2,112	3,633	3,633
Issued capital stock	$ 17,888	$ 21,314	$ 16,367	$ 19,793

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

b. Capital movements

- Contributions for future capital increases

On December 02, 2021 and December 31, 2020, the Institution received the amount of $8,011 and $6,000, 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.

- Capitalization

On March 31, 2021, the contribution for future capital increases received by the Institution in the amount of $5,743 on December 31, 2019 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"					
	1,003,634,364	1	$ 1,004	2.77660842	$ 2,787
Series "B"					
	517,023,763	1	517	2.77660842	1,435
TOTAL	1,520,658,127		$ 1,521		$ 4,222

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

On April 28, 2020, the contribution for future capital increases received by the Institution on November 28, 2018 was capitalized for $7,585, 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	1,835
TOTAL	2,189,483,511		$ 2,189		$ 5,396

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, 2021 and 2020, the legal reserve amounts to $3,748 and $3,682, respectively, which is presented in the caption of Capital reserves of stockholders' equity

Other reserve

At December 31, 2021 and 2020, 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, 2021 and 2020, the balances of tax accounts are summarized as follows:

	2021	2020
CUCA (Restated Paid-in Capital Account)	$ 80,873	$ 68,085
CUFIN (Net Taxable Income Account)	21,232	15,564

e. Capitalization ratio (unaudited information)

At December 2021-month end, Banobras estimates that net capital with regard to assets subject to a credit risk was placed at 30.89% and at 21.36%, with regard to assets subject to total risks. Those ratios were 26.33% and 17.11%, respectively, at December 2020-year end.

The summary of the capitalization[1] ratio at December 31, 2021 and 2020 is as follows:

	2021		**2020**	
Millions of Mexican pesos and %	**Credit ratio**	**Total ratios**	**Credit ratio**	**Total ratios**
Basic capital	30.31	20.96	25.73	16.72
Supplementary capital	**0.58**	**0.40**	0.60	0.39
Net capital	**30.89**	**21.36**	**26.33**	**17.11**
Assets at risk	262,002	378,879	264,012	406,366

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

f. Summary of net capital (unaudited information)

At December 31, 2021 and 2020, Banobras estimates that net capital amounted to $80,939 and $69,520 million of Mexican pesos, respectively. The amount of basic and complementary net capital is itemized below:

[1] In process of validation by Banco de México.

	2021	2020
Stockholders' Equity	$ 79,548	$ 68,023
Less:		
Investments in stock of financial entities	2	7
Investments in stock of non-financial entities	36	36
Intangibles and deferred expenses or costs	92	64
Gain or loss on valuation of cash flow hedging instruments	3	(24)
Basic capital	79,416	67,941
General preventive reserves for credit risks	1,524	1,579
Supplementary capital	1,524	1,579
Net capital	$ 80,939	$ 69,520

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

g. Assets at risk (unaudited information)

At December 31, 2021, Banobras estimates that total assets at risk amounted to $378,879 million of Mexican pesos, of which 69.2% comprised assets at credit risk.

The evolution between December 31, 2021 and 2020 of assets at market and credit risk is shown below:

Assets at market risk at December 31, 2021

Item	Amount of equivalent positions	Capital requirement
Transactions in Mexican pesos at a nominal rate	$ 61,798	$ 4,944
Trades with debt securities in Mexican pesos with a surcharge and a reviewable rate	11,104	888
Transactions in Mexican pesos at a real rate or denominated in UDIS or UMAS	8,038	643
Transactions in foreign currency at a nominal rate	5,132	411
Positions in UDIS or with a return based on the NCPI	30	2
Foreign exchange positions or with a yield indexed to the exchange rate	5,216	417
Positions in shares with a return indexed to the price of a share of group of shares	135	11
	$ 91,452	$ 7,316

Assets at market risk at December 31, 2020

Item	Amount of equivalent positions	Requirement Increases
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

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

Assets at credit risk under the Standard Method at December 31, 2021

Item	Risk weighted Assets	Capital requirement
Group II (weighted to 0%)	0	0
Group II (weighted to 20%)	$ 60	$ 5
Group III (weighted to 20%)	9,211	737
Group III (weighted to 50%)	4	0
Group III (weighted to 100%)	8	1
Group IV (weighted to 20%)	3,373	270
Group V (weighted to 20%)	29,268	2,341
Group V (weighted to 50%)	43,363	3,469
Group V (weighted to 115%)	153	12
Group V (weighted to 150%)	3,755	300
Group VI (weighted to 70%)	0	0
Group VI (weighted to 75%)	0	0
Group VI (weighted to 100%)	2,332	187
Group VII_A (weighted to 20%)	9,106	728
Group VII_A (weighted to 50%)	4,000	320
Group VII_A (weighted to 100%)	130,098	10,408
Group VII_A (weighted to 150%)	102	8
Group VII_B (weighted to 20%)	4,624	370
Group VII_B (weighted to 100%)	626	50
Group VIII (weighted to 115%)	4,841	387
Group IX (weighted to 100%)	13,562	1,085
Group X (weighted to 1250%)	0	0
Securitizations with a Risk 1 Rating (weighted to 20%)	1,460	117
Securitizations with a Risk 2 Rating (weighted to 50%)	312	25
Securitizations with a Risk 3 Rating (weighted to 100%)	1,744	140
	$ 262,002	$ 20,960.2

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

Item	Risk weighted Assets	Capital requirement
Group II (weighted to 0%)	$ -	$ -
Group II (weighted to 20%)	42	3
Group III (weighted to 20%)	12,782	1,023
Group III (weighted to 50%)	2	-
Group III (weighted to 100%)	1	-
Group III (weighted to 120%)	3	-
Group IV (weighted to 20%)	2,163	173
Group V (weighted to 20%)	30,043	2,403
Group V (weighted to 50%)	40,837	3,267
Group V (weighted to 115%)	1,247	100
Group V (weighted to 150%)	5,725	458
Group VI (weighted to 100%)	2,374	190
Group VII_A (weighted to 20%)	10,285	823
Group VII_A (weighted to 50%)	4,534	363
Group VII_A (weighted to 100%)	133,611	10,689
Group VII_A (weighted to 150%)	101	8
Group VII_B (weighted to 20%)	4,536	363
Group VII_B (weighted to 100%)	5,839	467
Group VIII (weighted to 115%)	21	2
Group IX (weighted to 100%)	6,355	508
Group X (weighted to 1250%)	-	-
Securitizations with a Risk 1 Rating (weighted to 20%)	1,445	116
Securitizations with a Risk 2 Rating (weighted to 50%)	319	25
Securitizations with a Risk 3 Rating (weighted to 100%)	1,747	140
	$ 264,011	$ 21,121

* 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 1.91% increase in the Economic Value of Capital in the quarter, due primarily to the increase in the portfolio and 1.17% with regard to December 2020. Moreover, as of 2021-year end, Stockholders' Equity presented a 4.36% increase with regard to September, and a 15.06% increase with regard to the prior year closing. The change in the quarter is due mainly to the allocation of the amount of the deposits in the TESOFE for future capital increases, which was carried out in November 2021, which meant an increase amounting to 5,588 billion only in that month.

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 2021-month end, which decreased 3.73% this quarter and 21.30% in comparison with December 2020.

The Economic Value of Capital considers an adjustment for credit risk determined by the expected loss of the economic value of the portfolio, derivatives and trading securities, which this quarter represented 12.64% with respect to the economic value of capital, that is, it increased 0.25 % in the quarter and 3.89% compared to December 2020. The increase in the proportion is explained by the deterioration of the bank's credit portfolio that generated an increase in its expected loss, the foregoing, was reflected in an increase of 25.6% of total preventive reserves. On the other hand, the expected loss of the economic value of the portfolio with respect to its economic value, that is, PEC/VEC represents 2.77%, compared to 2.65% observed in the third quarter of 2021 and 1.75% last year. Said expected loss considers the estimation of the credit risk in each one of the flows to be received from the portfolio at present value.

At the closing of the fourth quarter, the duration of those assets was set at 432 days and liabilities at 444 days, which upon being weighted by the economic value, results in a duration of the balance (DGAP) of 0.10 years, which decreased from 0.11 years observed in the third quarter of 2021 and from 0.15 years observed in December 2020. The decrease in the duration is explained mainly by the increase in the difference of the duration of liabilities with regard to assets, which impacted the total duration of the balance. 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:

Concept	dic-21	nov-21	sep-21	dic-20
PE/VE (total)	12.64%	12.39%	12.39%	8.75%
PE/VE (wallet)	2.77%	2.61%	2.65%	1.74%
DGAP (years)	0.10	0.10	0.11	0.15

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, 2021 and 2020, comprehensive income is summarized as follows:

	2021	2020
Net income	$ 2,340	$ 660
Gain or loss on valuation of available-for-sale securities	680	(1,170)
Gain or loss on valuation of cash flow hedging instruments	27	(27)
Remeasurements for defined employee benefits	212	(87)
Comprehensive income	$ 3,259	$ (624)

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 5.5% 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, 2021 and 2020, operating income, as well as the reconciliation with the statement of income for each segment are shown below:

	2021						
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	-	-	$ 515	-	-	-	$ 515
Investments and memorandum accounts	-	-	19,750	-	-	-	19,750
Repos trading	-	-	334	-	-	-	334
Loan portfolio	$ 12	$ 28,607	-	-	-	-	28,619
Gain or valuation of UDIS	-	387	-	-	-	-	387
Commissions on the initial granting of loans	-	597	-	-	-		597
	12	29,591	20,599	-	-	-	50,202
Interest expenses							
Interbank loans and from other agencies	7	844		-	-	-	851
Traditional uptake		16,696	3,215	-	-	-	19,911
Repos trading			16,654	-	-	-	16,654
Loss in changes due to valuation	-	524	-	-	-	-	524
	7	18,064	19,869	-	-		37,940
Financial margin	5	11,527	730	-	-	-	12,262
Allowance for loan losses	-	2,993	-	-	-	-	2,993
Financial margin adjusted by credit risks	5	8,534	730	-	-	-	9,269
Commissions and fees collected	-	366	7	$ 428	$ 80	$ 38	919
Commissions and fees paid	-	9	36	-	-	-	45
Intermediation income:							
Valuation of derivative financial instruments and items attributable to the hedged risk	-	202	-	-	-	-	202
Buy and sell of securities	-	-	112	-	-	-	112
Foreign exchange transactions	-	-	10	-	-	-	10
Derivative Financial trading	-	-	96	-	-	-	96
Interest on derivative financial trading operations	-	-	567	-	-	-	567
Valuation of derivative financial instruments for trading purposes	-	-	(1,853)	-	-	-	(1,853)
Valuation of securities	-	-	(114)	-	-	-	(114)
Total result from intermediation		202	(1,182)				(980)
Other operating income (expenses)		(23)	(1)	1	5	(11,222)	(11,240)
Administration and promotion expenses	1	373	30	101	8	664	1,177
Operating income	4	8,697	(512)	328	77	(11,848)	(3,254)
Caused income tax							
Deferred taxes on earnings (net)	-	-	-	-	-	(5,594)	(5,594)
Total taxes						(5,594)	(5,594)
Earnings (loss) before discontinued operations	4	8,697	(512)	328	77	(6,254)	2,340
Discontinued operations	-	-	-	-	-	-	-
Net income (loss)	$ 4	$ 8,697	$ (512)	$ 328	$ 77	$ (6,254)	$ 2,340

Prior	2020 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

(a) At December 31, 2021, both assets and liabilities as a Financial Agent of the Federal Government amount to $468 and $453 ($511 at December 31, 2020). For the year ended December 31, 2021, cash flows of assets and liabilities as a Financial Agent of the Federal Government amount to $(48) and $(58), respectively ($18 and $13 at December 31, 2020).

(b) At December 31, 2021, assets and liabilities for first-tier credit transactions consist of $501,062 and $417,072, respectively ($504,083 and $447,750 at December 31, 2020). At December 31, 2021, cash flows of assets and liabilities for first-tier credit transactions consist of $(3,021) and $(30,678), respectively ($60,262 and $52,537 at December 31, 2020).

(c) Assets and liabilities relative to treasury securities trading in investments, cash and cash equivalents, securities, repos, and derivatives trading at December 31, 2021 are comprised of $424,510 y $439,646 respectively ($$447,797 and $439,394 at December 31, 2020). As of December 31, 2021, cash flows are comprised of $(23,287) and $252, respectively ($13,758 and $12,459 as of December 31, 2020).

26. Financial margin

For the years ended December 31, 2021 and 2020, the summary of financial margin, which is presented in the statement of income, is as follows:

	2021		
Financial margin	Local currency and UDIS	Foreign currency	Total
Interest income:			
Interest from cash and cash equivalents	$ 515	-	$ 515
Interest and yields from collateral furnished	449	-	449
Interest and yields from investments in securities (a)	19,120	$ 181	19,301
Interest on performing loan portfolio (b)	27,283	1,314	28,597
Interest on nonperforming loan portfolio	5	17	22
Commissions on the initial granting of loans (c)	502	95	597
Interest and yields in repurchase agreement transactions (d)	334	-	334
Dividends from net equity instruments	-	387	387
	48,208	1,994	50,202
Interest expenses:			
Interest on Time deposit (e)	15,665	9	15,674
Interest on debt securities issued (e)	2,806	215	3,021
Interbank loans and other agencies (f)	582	269	851
Interest and yields in repurchase agreement transactions (g)	16,653	1	16,654
Discount on debt placement (e)	1,216	-	1,216
Loss due to changes in valuation	524	-	524
	37,446	494	37,940
Financial margin	$ 10,762	$ 1,500	$ 12,262

	2020		
Financial margin	Local currency and UDIS	Foreign currency	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

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

	2021	2020
Trading securities	$ 17,683	$ 20,823
Available-for-sale securities	1,282	1,100
Held-to-maturity securities	509	834
Interest on hedging transactions	(173)	49
	$ 19,301	$ 22,806

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

	2021	2020
Commercial credits:		
Business or commercial activity	$ 10,139	$ 11,118
Financial entities	1,385	1,769
Governmental entities	18,849	20,232
Housing credit		
Medium class and residential	5	6
Loans granted as an Agent of the Federal Government	12	14
Interest on hedging transactions	(1,793)	(811)
	$ 28,597	$ 32,328

As of December 31, 2021 and 2020, the interest on past due loan portfolio corresponds entirely to Loans with business or commercial activity for $22 and $1, respectively.

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

	2021	2020
Commercial credits:		
Business or commercial activity	$ 526	$ 286
Financial entities	6	6
Governmental entities	65	78
	$ 597	$ 370

(d) At December 31, 2021 and 2020, interest earned in repurchase transactions repos amounts to $334 and $1,482, respectively.

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

	2021	2020
Interest on Time deposit	$ 17,346	$ 20,437
Interest on debt securities issued	2,348	2,708
Discount on debt placement	1,215	1,183
Interest on hedging transactions	(998)	(526)
	$ 19,911	$ 23,802

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

	2021	2020
International agencies	$ 330	$ 512
Auctions Banxico	362	192
Interest on hedging transactions	76	95
Call Money	71	157
Loans from financial institutions	7	29
Cost of hedge (FOAEM)	4	11
Others	1	-
	$ 851	$ 996

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

	2021	2020
Governmental debt	$ 15,698	$ 20,314
Bank debt	956	1,039
	$ 16,654	$ 21,353

27. Intermediation income

For the years ended December 31, 2021 and 2020, it is summarized as follows:

	2021	2020
Gain or loss on valuation at fair value		
Trading securities	$ 202	$ (49)
Valuation of derivative financial instruments and items attributable to the hedged risk (1)	(1,967)	1,329
Derivative financial instruments for trading purposes	567	528
	(1,400)	1,857
Gain or loss on buying and selling:		
Swap transactions	112	167
Derivative trading	96	(91)
	208	76
Foreign currency	10	13
	$ (980)	$ 1,897

(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:

	2021	2020
(Loss) gain on changes in the valuation of hedging instruments	$ 7,226	$ (5,330)
Gain (loss) on changes in the valuation of hedged items	(7,340)	5,791
	$ (114)	$ 461

28. Other operating income (expenses)

At December 31, 2021 and 2020, this caption is summarized as follows:

	2021	2020
Public use taxes in benefit of the Federal Government (1)	$ (11,300)	$ (11,500)
Interest on loans to personnel	77	77
Recoveries	52	93
For advisory services, technical assistance	5	5
Other operating income	9	3
Allowance for uncollectible or doubtful accounts	(83)	(23)
	$ (11,240)	$ (11,345)

(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 $11,300 in fiscal 2021, (Official Letter 360.-132/2021 dated November 12, 2021), whereas payments were made amounting to $11,500 in 2020 (Official Letters 368.-141/2020 dated December 17, 2020).

29. Assets placed in trust or legal custody

At December 31, 2021 and 2020, Assets placed in trust or mandate are summarized as follows:

	2021	2020
Trust deeds	$ 16	$ 18
Management trusts	425,864	480,605
	425,880	480,623
Pension plan trusts	24,116	24,491
Mandates	9,323	9,328
Total assets placed in trust or legal custody	$ 459,319	$ 514,442

The institution's revenues from its trustee activities at December 31, 2021 and 2020 amounted to $428 and $419, respectively.

30. Assets in custody or administration

At December 31, 2021 and 2020, Assets in custody or administration are summarized as follows:

	2021	2020
Securities in custody and administration	$ 254,876	$ 275,066
Others	6	6
	$ 254,882	$ 275,072

At December 31, 2021 and 2020, balances of assets in custody and administration are summarized as follows:

	2021		2020	
	Securities	Fair Value	Securities	Fair Value
PRLV	100,918,009,812	$ 81,538	161,034,683,850	$ 141,616
BPAS	695,501,999	21,731	4,560,636,728	10,601
BONDES	568,266,374	56,867	633,178,711	63,210
BONDES F	210,800,559	21,031	-	-
Certificates of deposit	42,106,012	4,220	102,543,325	10,273
Securities exchange certificates	101,405,839	14,151	151,864,642	19,156
CEBIC	1,179,077	892	1,868,226	1,348
BPAGT	259,084,241	25,999	160,862,746	16,082
BPAG	139,736,021	13,948	5,222,959	520
CETES	60,882,423	600	82,999,370	808
Fixed rate bonds	9,135,422	927	14,035,422	1,626
UDIBONOS	7,361,989	5,460	3,228,117	2,412
EUROBONDS	10,000	84	10,000	100
	103,013,479,768	247,448	166,751,134,096	267,752
Shares	4,029,600,712	7,428	3,795,366,891	7,314
	107,043,080,480	$ 254,876	170,546,500,987	$ 275,066

At December 31, 2021 and 2020, revenues from custody and administration services amounts to $7.

31. Collateral in repurchase transactions repos

At December 31, 2021 and 2020, collateral in repurchase transactions repos shown in memorandum accounts are as follows (at fair value):

	2021	2020
Collateral received by the entity (1)	$ 4,584	$ 4,387
Collateral received and sold or furnished as a guarantee by the entity (2)	$ 4,584	$ 4,387

(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):

	2021	2020
BONDES D	$ 4,085	$ 2,443
CETES	-	600
CEBIC	499	494
BPAG28	-	-
BPAG91	-	600
UDIBONOS	-	250
	$ 4,584	$ 4,387

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

	2021	2020
CEBIC	$ 499	$ 494
CETES	-	600
BONDES	4,085	2,443
BPAG91	-	600
UDIBONOS	-	250
	$ 4,584	$ 4,387

32. Other memorandum accounts

At December 31, 2021 and 2020, balances of Other memorandum accounts are summarized as follows:

	2021	2020
Amounts contracted with derivative financial instruments	$ 667,461	$ 695,806
Induced credit:		
Guarantees amount guaranteed	13,314	13,128
No Guarantees amount not guaranteed	61,716	61,349
Contingent lines amount guaranteed	31	30
Contingent lines amount not guaranteed	261	276
Refinancing guaranteed	2,591	2,464
Guarantees by endorsement executed	-	597
Borrowing credit lines not yet drawn down	5,658	5,511
Uncollectible credits applied against the preventive estimate for loan risks	782	782
Other memorandum accounts	24,172	26,646
	$ 775,986	$ 806,589

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 plan; 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 that 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 that 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 model for setting out the resources to place in a trust with the states and municipalities within the "Methodology for determining the maximum accumulated indebtedness limits LET - as per its acronym in Spanish) and the percentage of resources to place in a trust of the states and municipalities", which incorporates financial variables that consider the level of revenues that will operate as a source of payment and its volatility, as well as the profile of committed payments under stress conditions.

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 whereas the policies and procedures for the calculation of VaR credit, and concentration are set out in the "Policies and procedures for credit risk management", as well as for the timely monitoring of the credit quality ratings assigned by the 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 where the model used to calculate the valuation adjustment for counterparty credit risk (CVA) of the financial instruments that the Bank has is established. Additionally, for derivative financial instruments, the model to be applied to determine the valuation adjustment for own credit risk (DVA) is described.

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 in the system that manages the information of the shareholders of the Bank's clients or counterparties.

vi) Methodology for credit impairment of accounts receivable and financial instruments[5]. Defines the model of the Expected Credit Loss (PCE) applicable to Accounts Receivable and Financial Instruments, in compliance with the definition of the Financial Reporting Standard (NIF) C-16 Impairment of financial instruments receivable, IFCPI and IFCV. Likewise, it defines the risk stages of the Financial Instruments to Collect Principal and Interest and Financial Instruments to Collect and Sell.

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[5] This regulation was approved by the Comprehensive Risk Management Committee during the 4th quarter of 2021 and its entry into force will be as defined by the Provisions.

vii) Loan Portfolio Rating Methods based on the General Provisions Applicable to Lending Institutions. Preventive estimates for credit risks[6] 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 degree is determined of the consumer or mortgage lending portfolio payable by former employees.

viii) Methodology for the determination of additional preventive reserves. Additional preventive reserves that are created for covering risks that are not provided for in the Provisions are applied to projects of the private sector that are in a construction stage and FIMEM credits. Moreover, criteria are defined for the release of additional preventive reserves for private sector projects.

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.

[6] Refers to the constitution of preventive reserves, for overdue interest and for court expenses.

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[7]. 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.

[7] This regulation was approved by the Comprehensive Risk Management Committee during the 4th quarter of 2021 and its entry into force will be as defined by the Provisions.

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[8]. 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.

[8] This regulation was approved by the Comprehensive Risk Management Committee during the 4th quarter of 2021 and its entry into force will be as defined by the Provisions.

Methodologies, Policies, and Procedures and Systems or Applications

i) **Interest rate risk management methodology of the balance sheet and liquidity[9].** 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.

[9] This regulation was approved by the Comprehensive Risk Management Committee during the 4th quarter of 2021 and its entry into force will be as defined by the Provisions.

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[10]. 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.

[10] This regulation was approved by the Comprehensive Risk Management Committee during the 4th quarter of 2021 and its entry into force will be as defined by the Provisions.

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[11].** 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.

[11] This regulation was approved by the Comprehensive Risk Management Committee during the 4th quarter of 2021 and its entry into force will be as defined by the Provisions.

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.

QUANTITATIVE INFORMATION[12]

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.

Quarter	4th 2021	3rd 2021	2nd 2021	1st 2021	4th 2020
Amount exposed in nominal term[1/]	523,987.9	527,275.8	528,054.0	525,511.1	537,178.4
Amount exposed in capital requirement term[1/,2/]	21,485.1	21,778.8	22,162.6	23,172.2	24,019.8
Overall Consumption Limit[2/, 3/]	71.8%	72.7%	74.0%	84.1%	87.2%

Amounts in millions of Mexican pesos.

1/ It does not include the exposure of Mexico City because it is a portfolio of the Federal Government (for the fourth quarter of 2021 in nominal terms it amounts to 35,401.6 million pesos and for the third quarter of 2021 in nominal terms it amounts to 31,062.2 million pesos) , or overdue portfolio, or development banking. Includes counterparty risk and investment portfolio, which, in nominal terms as of the fourth quarter of 2021, amounts to an accumulated amount of 74,896.7 million pesos and 75,233.8 million pesos in the previous quarter).

Likewise, it is pointed out that the figures reported in nominal terms are of an indicative nature.

2/ On May 25, 2021, the Board of Directors approved the global credit risk exposure limit in terms of capital requirement amounting to 29,941 million pesos.

The average exposure in nominal terms from the third to the fourth quarter of 2021 amounts to 558,863.7 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 to the fourth quarter of 2021 would amount to 525,631.9 billion pesos.

In the fourth quarter of 2021, there was a decrease in the consumption of the global limit in terms of capital requirement of 1.3% compared to the third quarter of 2021, standing at 71.8% (72.7% in the previous quarter), likewise, registered a decrease in authorized exposure in nominal[13] terms of 3,287.9 million pesos compared to the previous quarter, the changes are mainly due to decreases in authorized exposure with Commercial Credits, in addition to portfolio movements and exchange rate volatility.

Additionally, the average exposure between the end of 2020 and the end of 2021 amounts to 563,599.6 million pesos considering the exposure of Mexico City. If the exposure of Mexico City is not considered, because it is an Excepted Portfolio, the average exposure of the closing of 2020 and the closing of 2021 amounts to 530,583.1 million pesos.

At the end of fiscal year 2021, there was a decrease in the consumption of the global limit in terms of capital requirement of 10.6% compared to the end of 2020, standing at 71.8% (87.2% of the previous year), the foregoing, mainly due to liquidations, to the classification of loans to non-performing loans, to the granting of loans associated with the Commercial Credit Business line, to the granting of loans to States and Municipalities, as well as portfolio movements and exchange rate volatility.

[12]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.
[13] The figures reported in nominal terms are indicative.

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 an interval of annual time, with a 99% confidence level. The CAIR approved the modifications to the "Methodology for portfolio credit risk management" in December 2021, highlighted by the change of projection horizon of the VaR from quarterly to annual. This is why beginning the 4th quarter of 2021, the credit VaR is presented with an annual horizon; therefore, prior amounts are not comparable.

As of the 4th quarter of 2021, the credit VaR of the portfolio amounts to $31,981.7 billion pesos, which represents 41.7% of the net capital as of September 2021.

Item	4th Quarter 21	3rd Quarter 21	2nd Quarter 21	1st Quarter 21	4th Quarter 20	μ*	σ*
Expected Loss	13,750.5	*13,233.2*	*9,843.4*	*11,739.0*	11,520.3	12,017.3	1,543.8
Unexpected loss	18,231.2	*7,494.4*	*8,329.3*	*8,872.6*	8,119.2	10,209.3	4,511.4
Credit VaR	31,981.7	*20,727.5*	*18,172.6*	*20,611.6*	19,639.5	22,226.6	5,548.5
Net capital a)	76,684.0	*76,127.5*	*72,346.2*	*69,520.1*	67,769.7	72,489.5	3,935.2
Preventive reserves	14,228.7	*13,515.2*	*10,100.6*	*11,492.9*	11,284.3	12,124.3	1,700.2
Portfolio exposed to credit risk b)	449,854.4	*449,511.3*	*443,116.3*	*438,859.6*	438,145.3	443,897.4	5,614.2
Credit VaR/Net capital	41.7%	*27.2%*	*25.1%*	*29.6%*	29.0%	30.5%	6.5%
Credit VaR/Portfolio exposed to risk	7.1%	*4.6%*	*4.1%*	*4.7%*	4.5%	5.0%	1.2%
VaR of Financial Instruments	88.6	*15.1*	*25.8*	*32.8*	19.8	36.4	29.9
Exposure of Financial Instruments c)	53,477.7	*53,269.9*	*57,026.2*	*57,778.2*	65,708.4	57,452.1	5,043.3
VaR of Fin. Inst./Net capital	0.1155%	*0.0198%*	*0.0357%*	*0.0472%*	0.0292%	0.0495%	0.0382%
VaR of Fin. Inst./Exposure of Fin. Inst.	0.1656%	*0.0283%*	*0.0453%*	*0.0568%*	0.0301%	0.0652%	0.0573%

* 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 as of 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 Public Owned Federal Public Administration and Public Trusts, without including FONADIN, exempted portfolio, nor credits to former employees. Beginning the 4th quarter of 2021, the horizon is twelve months, whereas the prior horizons are three months.

During the last three months of the quarter in question, the average annual credit VaR is placed at 32,836.0 billion pesos, and it has a standard departure of 828.7 million pesos, whereas the median in the VaR of financial instruments is 94.8 million pesos with a standard departure of 8.2 million pesos, which represents 0.1155% of net capital.

With regard to the distribution of the portfolio exposed to credit risk without Zero Coupon Bonds (BBC) amounting 449,854.4 million pesos, by geographic region, as of December 31, 2021, the Center region represents 51.0%, the South region 26.6% and the North region 22.5%. However, the South zone presents the least diversification with an index of 7.1 vs. 30.2 from the Center region. Likewise, during the fourth quarter of 2021, the ratio of Banobras credit VaR with respect to the portfolio was 7.1%.

VaR and loan portfolio by geographic region *

	Balance** of portfolio exposed to credit risk						Marginal VaR at 99%		
Region	Dec-21	%	Sept-21	%	Dec-20	%	Dec-21	Sept-21	Dec-20
North	101,055.8	22.5%	102,595.6	22.8%	101,682.2	23.2%	9,078.4	4,142.1	4,166.5
Central	229,302.5	51.0%	227,260.1	50.6%	213,578.9	48.7%	22,452.6	15,047.0	10,780.0
South	119,496.1	26.6%	119,655.6	26.6%	122,884.2	28.0%	9,270.1	6,463.1	8,650.0
Total	449,854.4	100.00%	449,511.3	100.00%	438,145.3	100.0%	31,981.7	20,727.5	19,639.5

*/ The sums and some figures may vary due to rounding effects. Amounts in millions of pesos. As of the 4th quarter of 2021, the horizon is twelve months while the previous ones are three months.

At December 31, 2021, 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 maintain a portfolio of 114,173.9 million pesos (24.6% of the portfolio subject to credit risk) and represents 1.5 times the basic capital as of September.

As of December 2020, 42 borrowers out of a total of 452 account for 80.1% of the balance of the commercial loan portfolio, by discounting zero coupon curve (amounting to 13,642.7 million pesos), which is equivalent to 4.7 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 borrower's subject to the 100% limit of the basic capital exceeds the threshold.

Portfolio Credit Risk

The loan portfolio of Banobras at December 31, 2021 amounted to 560,576.3 million Mexican pesos. 46.1% corresponded to loans charged to state and municipal governments and their agencies, 31.6% to private credits, and 4.1% to financial entities. The total portfolio presents a 2.5% change against what was reported in December 2020 (547,021.5 million pesos).

Main characteristics of the loan portfolio by risk group

Item	Balance Dec21	Balance Dec20	Variation	Reserve Dec21	Reserve Dec20	Variation	VaR Dec21
State and Municipal Governments	**258,625.5**	**253,656.6**	**4,968.9**	**2,306.2**	**1,964.5**	**341.7**	**14,955.2**
Performing	258,625.5	253,656.6	4,968.9	2,306.2	1,964.5	341.7	
Nonperforming	0.0	0.0	0.0	0.0	0.0	0.0	
Impaired	22.6	24.1	-1.5	3.8	4.4	-0.7	
Private	**177,110.9**	**173,844.6**	**3,266.3**	**9,126.4**	**6,265.0**	**2,861.4**	**23,464.0**
Performing	167,030.3	171,315.2	-4,284.9	3,235.2	3,735.5	-500.3	
Nonperforming	10,080.6	2,529.5	7,551.1	5,891.3	2,529.5	3,361.8	
Impaired	13,217.9	6,808.6	6,409.3	7,083.5	4,660.0	2,423.5	
Financial Brokers	**22,870.9**	**23,372.7**	**-501.7**	**139.0**	**158.5**	**-19.5**	**2,350.1**
Performing	22,870.9	23,372.7	-501.7	139.0	158.5	-19.5	
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	**4,889.8**	**757.2**	**4,132.6**	**24.4**	**3.8**	**20.7**	**299.7**
Total concentrated subject to risk	***463,497.1***	***451,631.1***	**11,866.0**	***11,596.1***	***8,391.8***	**3,204.3**	**31,981.7**
Exempted GF portfolio	**61,939.9**	**60,235.5**	**1,704.4**	**0.0**	**0.0**	**0.0**	
Fonadin	**35,000.0**	**35,000.0**	**0.0**	**175.0**	**175.0**	**0.0**	
Former employees	**139.3**	**154.9**	**-15.6**	**42.3**	**42.3**	**0.1**	
Performing	82.8	100.6	-17.8	2.2	3.1	-0.9	
Nonperforming	56.5	54.3	2.2	40.1	39.2	0.9	
Impaired	52.7	49.1	3.6	40.4	39.7	0.6	
Total	***560,576.3***	***547,021.5***	***13,554.8***	***11,813.4***	***8,609.0***	***3,204.4***	

During the fourth quarter of 2021, the monthly average of the portfolio was placed at 559,552.4 million Mexican pesos, whereas the average of reserves was placed at 11,065.3 million Mexican pesos.

	Average Balance December 2021	Average Reserves December 2021
States and Municipalities or with their guarantee	224,757.6	1,757.5
Own source of payment	172,585.5	6,433.7
Credits to the Federal Government or with their guarantee	59,053.3	0.0
Contingent credits: Others	50,582.2	524.7
Second tier credits: Full-Service Banking	16,798.3	101.8
Second tier credits: Others	6,147.7	18.1
Decentralized or Regulatory Agencies	27,023.1	194.5
Bank agent credits	469.7	0.0
Commercial Credits: Medium-sized companies	1,992.5	1,992.5

	Average Balance December 2021	Average Reserves December 2021
Housing credit*	132.5	33.2
Consumer credit*	9.9	9.3
Total:	**559,552.4**	**11,065.3**

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, 62.5% matures in a term between 10 and 20 years, are shown below:

Distribution of balances by remaining term of the portfolio at December 2021

	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	16	12	75	1,904	12,537	170,431	40,219	**225,193**
Decentralized or Regulatory Agencies	4,428	4	0	556	1,965	19,958	0	**26,911**
Own source of payment	599	1,192	949	17,745	27,647	111,795	10,857	**170,783**
Commercial Credits: Medium-sized companies	1,962	0	0	0	0	0	0	**1,962**
Contingent credits	50,679	0	0	0	0	0	0	**50,679**
Contingent credits / Guarantees by endorsement	0	0	0	0	0	0	0	**0**
Second tier credits: Full-Service Banking	0	0	0	176	784	15,808	0	**16,768**
Second tier credits: Others	0	336	0	0	810	5,055	0	**6,200**
Credits to the Federal Government or with their guarantee	0	0	0	3,270	28,416	26,844	2,957	**61,487**
Bank agent credits	0	0	0	0	0	453	0	**453**
Consumer credit	9	0	0	1	0	0	0	**10**
Housing credit	31	2	0	18	13	65	0	**129**
Totals:	**57,724**	**1,545**	**1,025**	**23,670**	**72,172**	**350,409**	**54,032**	**560,576**
Percentage of the total	**10.3%**	**0.3%**	**0.2%**	**4.2%**	**12.9%**	**62.5%**	**9.6%**	**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-21	%	Dec-20	%	Δ
A-1	1,795.6	15.2	1,693.0	19.7	***102.6***
A-2	490.0	4.1	895.7	10.4	***-405.7***
B-1	839.4	7.1	20.6	0.2	***818.8***
B-2	137.1	1.2	234.6	2.7	***-97.4***
B-3	526.4	4.5	552.1	6.4	***-25.7***
C-1	257.8	2.2	76.1	0.9	***181.7***
C-2	639.4	5.4	432.7	5.0	***206.8***
D	4,626.0	39.2	529.2	6.1	***4,096.8***
E	2,501.6	21.2	4,175.0	48.5	***-1,673.4***
Total	**11,813.4**	**100.0**	**8,609.0**	**100.0**	***3,204.4***

Amounts in millions of pesos.
*/ It neither includes induced credit nor guaranteed refinancing.

The commercial overdue portfolio amounts to 10,080.6 million pesos and represents 1.8% of the total portfolio of the Bank, as well as 2.2% of the portfolio exposed to risk. During the fourth quarter of 2021, the commercial overdue portfolio increased 7,551.1 million pesos compared to last year. Taking into account the past due portfolio of former employees, at the end of the fourth quarter of 2021 the past due portfolio amounts to 10,137.1 million pesos. Regarding the time that loans remain in past due portfolio, the historical average 2000-2021 stands at 17.8 months, while, when measured as a proportion of time in portfolio, it is 39.1%.

Commercial, consumer and housing loans with risk "D" and "E" are identified as troubled portfolios. At the end of December 2021, it amounts to 13,293.2 million pesos.

It can be seen that the distribution of the past due portfolio by geographic region is mainly concentrated in the Central region with a ratio of 79.2% with respect to the past due portfolio. It is also observed that 30.8% of the current reserves of the Central region are in a troubled state.

Loan portfolio by geographic region: performing, nonperforming, and impaired *
at December 2021

Region	Total Balance	Performing			Nonperforming			Impaired			% balance Past Due/Outstanding
		Total	Reserve	% Reserve/ Balance	Total	Reserve	% Reserve/Balance	Total	Reserve	% Reserve/Balance	
Central	329,440.2	321,409.2	3,878.2	1.2	8,031.0	3,826.5	47.6	11,165.5	5,019.0	45.0	2.50
North	106,118.3	105,961.4	692.5	0.7	156.8	156.2	99.6	178.4	159.8	89.6	0.15
South	125,017.8	123,068.6	1,311.3	1.1	1,949.2	1,948.8	100.0	1,949.3	1,948.8	100.0	1.58
Total	560,576.3	550,439.2	5,882.0	1.1	10,137.1	5,931.4	58.5	13,293.2	7,127.6	53.6	1.84

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

State	December 2021			December 2020		
	Total	Nonperforming	Preventive	Total	Nonperforming	Preventive
Distrito Federal	11,002.8	7,865.4	4,868.3	2,606.1	520.0	1,042.7
Veracruz	1,942.5	1,942.5	1,942.5	1,885.8	1,885.8	1,885.8
Oaxaca	0.0	0.0	0.0	2,045.1	0.0	1,459.8
Others	295.2	272.6	276.4	295.7	123.7	276.1
Total	**13,240.5**	**10,080.6**	**7,087.2**	**6,832.7**	**2,529.5**	**4,664.4**

Amounts in millions of Mexican pesos

At December 2021, the total states with an impaired portfolio is 7 (without considering the former employee portfolio), in comparison with 7 of the prior year.

Nonperforming portfolio by State without former employees

State	December 2021		December 2020	
	Total	Preventive	Total	Preventive
Distrito Federal	7,865.43	3,676.10	520.03	520.03
Veracruz	1,942.52	1,942.52	1,885.80	1,885.80
Others	272.63	272.63	123.65	123.65
Total	**10,080.58**	**5,891.25**	**2,529.48**	**2,529.48**

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 2021			December 2020 *			Δ Balance	Δ Reserve
	Opening balance	Total	Reserve	Opening balance	Total	Reserve		
Mexican Pesos	2,801.0	7,697.0	3,743.6	8,113.6	2,588.9	1,984.0	5,108.1	1,759.6
U.S.	210.3	270.3	163.0	224.7	213.2	134.6	57.2	28.4

Amounts in millions of pesos. *The sums and some figures may vary due to rounding effects

Main financing for own account

As of December 31, 2021, the sum of the three main borrowers subject to 100% of the basic capital amounts to 33,937.5 million pesos (including financial instruments), which represents 45.2% of the basic capital.

Likewise, the Institution has granted 22 financings for 730,630.1 million pesos (including financial instruments) that exceed 10% of the basic capital and that represent 9.7 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.

As of the fourth quarter of 2021, Banobras had accredited 16 economic groups in which there are 34 companies that represented common risk due to equity links, which in aggregate constituted a concentration equivalent to 95.0% 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 2021-month end, are indicated below:

Issuer	Par Value (Millions of pesos)	% With regard to Net Capital
SCOTIABANK	5,977	7.59%
BANCOMER	4,703	5.97%
CFE	4,428	6.62%

Net Capital considered amounts to 78,736 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 2021					3rd Quarter 2021				
	Dec/21	% of Net Capital	Average	% of Net Capital	σ	Sept/21	% of Net Capital	Average	% of Net Capital	σ
Banobras	347.66	0.44%	322.86	0.42%	15.32	323.11	0.42%	326.60	0.43%	2.48
Money Market	194.88	0.25%	195.89	0.25%	1.41	196.29	0.26%	192.79	0.25%	0.93
Exchange Desk	78.41	0.10%	72.10	0.09%	4.87	79.76	0.10%	70.60	0.09%	4.96
Derivatives Trading	11.98	0.02%	12.73	0.02%	0.39	13.35	0.02%	13.04	0.02%	0.13
Structural Derivatives Trading	202.44	0.26%	183.02	0.24%	12.45	180.90	0.24%	189.50	0.25%	3.61
Derivatives Trading Rec.	-	-	-	-	-	-	-	-	-	-

Amounts in millions of pesos
N.C.: Net Capital in force on the date of generation of the Market risk report.
The average data, average Net Capital consumption and standard deviation are calculated with the daily data observed during the period.

In comparison with the same quarter of 2020, the CVaR estimates present the following behavior:

Portfolio	4th Quarter 2021					4th Quarter 2020				
	Dec/21	% of Net Capital	Average	% of Net Capital	σ	Dec/20	% of Net Capital	Average	% of Net Capital	σ
Banobras	347.66	0.44%	322.86	0.42%	15.32	331.67	0.47%	337.55	0.49%	6.69
Money Market	194.88	0.25%	195.89	0.25%	1.41	174.56	0.25%	183.67	0.27%	10.24
Exchange Desk	78.41	0.10%	72.10	0.09%	4.87	60.02	0.08%	52.94	0.08%	7.22
Derivatives Trading	11.98	0.02%	12.73	0.02%	0.39	14.20	0.02%	14.91	0.02%	0.40
Structural Derivatives Trading	202.44	0.26%	183.02	0.24%	12.45	211.99	0.30%	209.92	0.31%	4.36
Derivatives Trading Rec.	-	-	-	-	-	-	-	-	-	-

Amounts in millions of pesos
N.C.: Net Capital in force on the date of generation of the Market risk report.
The average data, average Net Capital consumption and standard deviation are calculated with the daily data observed during the period.

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 end of the fourth quarter of 2021, there was a decrease in the amount exposed with financial intermediaries and with the investment portfolio in nominal terms[14] of 337.1 million pesos compared to the third quarter of 2021. The foregoing is mainly explained by the decrease in the authorized exposure with Counterparty for 466.4 million pesos and the increase in the exposure of the Investment Portfolio for 83.2 million pesos.

Exposure from Loans to Financial Intermediaries and Investment Portfolio	Exposure in nominal term		
	Exposure at December-2021 closing (A)	Exposure at September-2021 closing (B)	Change with regard to prior quarter [(A)/(B)%]
Loans to Financial Intermediaries			
Counterparty	8,758.7	9,225.1	-5.1%
Bank funding	35,443.8	35,449.9	-0.0%
Brokerage Firms (Derivatives)	56.5	4.2	+1,238.4%
Other financial intermediaries no national banking	8,500.0	8,500.0	-
Development Bank	8.1	5.8	+38.8%
Subtotal Loans to Intermediaries Financial	**52,759.0**	**53,179.2**	**-0.8%**
Investment Portfolio (PI)	22,137.7	22,054.5	+0.4%
PI subtotal	**22,137.7**	**22,054.5**	**+0.4%**
Total	**74,896.7**	**75,233.8**	**-0.4%**

Amounts in millions of Mexican pesos.

1 The figures reported in nominal terms are indicative.

Moreover, as of the 2021 closing, a decrease was observed in the amount exposed with financial brokerage firms and Investment Portfolio amounting to 4,865.8 billion pesos with regard to the 2020 closing. The decrease in authorized exposure was due primarily to the decrease in authorized exposure with the Counterparty, with Funding to Banks and with the Investment Portfolio in the amount of 945 million pesos, 996.2 million pesos, and 2,964.9 billion pesos, respectively.

Exposure from Loans to Financial Intermediaries and Investment Portfolio	Exposure in nominal term		
	Exposure at December-2021 closing (A)	Exposure at December-2020 closing (B)	Change with regard to prior quarter [(A)/(B)%]
Loans to Financial Intermediaries			
Counterparty	8,758.7	9,703.7	-9.7%
Bank funding	35,443.8	36,440.0	-2.7%
Brokerage Firms (Derivatives)	56.5	16.2	+248.7%
Other financial intermediaries no national banking	8,500.0	8,500.0	-
Development Bank	8.1	6.8	+18.7%
Subtotal Loans to Intermediaries Financial	**52,759.0**	**54,659.9**	**-3.5%**
Investment Portfolio (PI)	22,137.7	25,102.6	-11.8%
PI subtotal	**22,137.7**	**25,102.6**	**-11.8%**
Total	**74,896.7**	**79,762.5**	**-6.1%**

Amounts in millions of pesos.

As of December 31, 2021, the CVA calculation shows a total credit risk exposure of 118.88 million pesos, which comes mainly from non-financial counterparties.

[14]The figures reported in nominal terms are indicative.

CVA (Mexican Pesos)	December 2021				September 2021			
	Derivatives	Money Desk	PIDV	PICV	Derivatives	Money Desk	PIDV	PICV
Non-Financial Counterparties	0.97	0.19	1.67	0.33	1.07	0.20	1.58	0.35
Non-Financial Counterparties	11.76	3.58	100.07	0.30	9.32	3.96	102.81	0.30

CVA (Mexican Pesos)	December 2021				December 2020			
	Derivatives	Money Desk	PIDV	PICV	Derivatives	Money Desk	PIDV	PICV
Non-Financial Counterparties	0.97	0.19	1.67	0.33	1.40	0.48	1.72	0.81
Non-Financial Counterparties	11.76	3.58	100.07	0.30	117.86	2.41	108.65	0.31

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 2021 closing, the guarantees received for cash derivative financial instruments presented a 20.30% 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 2021 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 58 counterparties, of which 19 financial counterparties have a contract that allows for trading collateral.

c) Liquidity risk

Liquidity risk management allows identifying the funding concentration risks to which Banobras is exposed. Funding operations for terms greater than 30 days at the end of December 2021 decreased 14.03% compared to the immediately previous quarter and likewise decreased 1.41% compared to the end of the previous year.

The potential loss on early liquidation of the money market lending position decreased 13.64%, in comparison with the third quarter of 2021.

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 1.91% increase in the Economic Value of Capital in the quarter, due primarily to the increase in the portfolio and 1.17% with regard to December 2020. Moreover, as of 2021-year end, Stockholders' Equity presented a 4.36% increase with regard to September, and a 15.06% increase with regard to the prior year closing. The change in the quarter is due mainly to the allocation of the amount of the deposits in the TESOFE for future capital increases, which was carried out in November 2021, which meant an increase amounting to 5,588 million only in that month.

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 Risk Management Methodology for balance sheet interest rates and liquidity risk, at the end of December 2021, the relationship between the Economic Value of Capital with respect to stockholders' equity was calculated, which decreased 3.73% in the quarter and 21.30% compared to December 2020.

The Economic Value of Capital considers an adjustment for credit risk determined by the expected loss of the economic value of the portfolio, derivatives and trading securities, which this quarter represented 12.64% with respect to the economic value of capital, that is, it increased 0.25 % in the quarter and 3.89% compared to December 2020. The increase in the proportion is explained by the deterioration of the bank's credit portfolio that generated an increase in its expected loss, the foregoing, was reflected in an increase of 25.6% of total preventive reserves. On the other hand, the expected loss of the economic value of the portfolio with respect to its economic value, that is, PEC/VEC represents 2.77%, compared to 2.65% observed in the third quarter of 2021 and 1.75% last year. Said expected loss considers the estimation of the credit risk in each one of the flows to be received from the portfolio at present value.

As of the closing of the fourth quarter, the duration of those assets was set at 432 days and liabilities at 444 days, which upon being weighted by the economic value, results in a duration of the balance (DGAP) of 0.10 years, which decreased from 0.11 years observed in the third quarter of 2021 and from 0.15 years observed in December 2020. The decrease in the duration is explained mainly by the increase in the difference of the duration of liabilities with regard to assets, which impacted the total duration of the balance. 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:

Concept	dic-21	nov-21	sep-21	dic-20
PE/VE (total)	12.64%	12.39%	12.39%	8.75%
PE/VE (wallet)	2.77%	2.61%	2.65%	1.74%
DGAP (years)	0.10	0.10	0.11	0.15

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, 12 operational risk events were recorded, of which 7 of these incidents had no loss or profit for the Bank, while 5 generated an economic impact for the institution.

Regarding the estimate of the impact that the materialization of the identified operational risks would generate, it would yield an expected loss of 0.70 million pesos, despite the fact that the capital requirement for operational risk is as follows:

Item	Dec-21	Sept-21	Dec-20
Capital Requirement	2,034	2,043.1	2,052

* 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-21	Sept-21	Dec-20
Zero Coupon Bonds	14,796.6	14,689.8	14,555.5

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-21			Sept-21			Dec-20		
	Financial	Non-financial	Total	Financial	Non-financial	Total	Non-financial	Non-financial	Total
Positive fair value	17,809,5	3,468.3	21,277.8	18,741.3	4,266.5	23,007.8	23,495.4	10,150.7	33,646.1
Netting Profit	9,129.9	99.5	9,299.4	9,408.0	148.0	9,556.0	13,772.9	102.2	13,875.2
Collateral or Security Interests Maintained (Cash/Securities)	752.3	-	752.3	844.0	98.8	942.8	3,186.4	-	3,186.4
Current Exposure	8,679.6	3,368.8	12,048.4	9,333.3	4,118.5	13,451.8	9,722.5	10,048.4	19,770.9
Future Potential Exposure	187.3	0.7	188.0	191.6	0.8	192.4	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-21		Sept-21		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"[15]	35.705	10.794	35.705	10.794	35.705	10.794

Amounts in millions of Mexican pesos

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 nonperformance's 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.

[15] 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.

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 carried neither 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 (%)
9	**D2**	**109.7**	**4.18**
10	**90**	**656.9**	**9.25**
10	**D2**	**381.9**	**5.48**
11	**95**	**2,761.1**	**13.92**
12	**90**	**2,003.8**	**13.42**
12	**91**	**624.5**	**13.42**
12	**95**	**1,878.7**	**13.42**
12	**D2**	**1,252.4**	**9.59**
	Total	**9,669.0**	

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	2,660.7	20	42.6
91	624.5	50	25.0
95	4,639.8	20	74.2
D2	1,744.0	100	139.5
Total	**9,669.0**		**281.3**

   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.

  - When credit or financing is evaluated through the Environmental and Social Risks Management System of the Institution, it must take into account the results and recommendations obtained from the environmental and social risks evaluation associated with credit and financing.

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 terms of the provisions of the General Provisions applicable to Credit Institutions, the Board of Directors of Banobras, at the proposal of the Audit Committee, approved through Agreement 077/2021, in its Ordinary Session held on September 21, 2021, the updating of the normative document called "Objectives and Guidelines of the Internal Control System of Banobras", the guidelines for its implementation, functions, as well as responsibilities assigned to the different areas and internal bodies that intervene in its instrumentation, application, surveillance, 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;

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 2021, 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.

Banobras 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 2021, 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.

In this sense, it is estimated to carry out the activities to review, propose and strengthen the reagents of each ACI, during the first trimester of 2022.

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.

On December 30, 2021, the CNBV published modifications to the Amending Resolution to the CUB published in the DOF on March 13, 2020, by making specifications in determined accounting criteria contained in Exhibit 33, and adjusting the form of presentation of financial regulatory reports contained in Exhibit 36, arising from the feedback process and follow-up on the implementation of the modifications to the accounting criteria by lending institutions.

The most relevant changes are mentioned 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 should be noted that NIF C-2 "Investment in financial instruments" and NIF C-10 "Derivative financial instruments and hedging relationships" will be mandatory for credit institutions as of January 1, 2022, once the specific criteria B-2. "Investments in securities" and B-5. "Derivatives and hedging operations", published by the CNBV, valid until December 31, 2021.

- **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 C-9. "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 2022. 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 B-7 "Business Acquisitions". General rules are incorporated for the recognition of business acquisitions between entities under common control.

MX FRS B-15 "Conversion of foreign currencies". It is established as a practical solution not to carry out the conversion process to the functional currency and to present financial statements based on the financial information in the recording currency, when the recording currency and the reporting currency are the same. The foregoing provided that they are financial statements for legal and fiscal purposes of: a) individual entities that do not have subsidiaries or controllers, or users that require complete financial statements prepared considering the effects of the conversion to functional currency; or b) are subsidiaries, associates or joint ventures that do not have users that require complete financial statements prepared considering the effects of translation to functional currency. Using this practical expedient, the entity must disclose the fact and reasons in the notes to the financial statements. With these modifications, INIF 15 is repealed.

MX FRS D-3 "Employee benefits". Adjustments are made to the NIF related to the determination of the deferred Employee Profit Sharing (PTU), for those cases in which the entity considers that the payment of the PTU will be at a rate lower than the current legal rate, as well as the determination of the PTU rate caused in the year. The foregoing derived from the modifications, published in the DOF on April 23, 2021, for the calculation of the PTU, where it is established that the PTU amount will have a maximum limit of three months of the worker's salary or the average of the PTU received by the worker in the last three years.

MX FRS B-1 "Accounting changes and error corrections". The requirement to disclose pro forma information when there is a change in the economic entity is eliminated; additionally, minor editorial adjustments are made.

MX FRS B-10 "Effects of inflation". It is specified that the disclosures indicated in paragraph 73, which refer to when the entity operates in a non-inflationary environment, must be disclosed when the entity considers it relevant.

MX FRS B-17 "Determination of fair value". It is specified that the information to be disclosed in paragraph 37 of NIF B-1, Accounting changes and corrections of errors, is not required for a change in an accounting estimate derived from a change in the valuation technique or its application.

MX FRS C-6 "Property, plant and equipment". Removed disclosure regarding planned time for constructions in progress.

The improvements to the FRS that do not generate accounting changes are modifications related to precisions, which help to establish a clearer and more understandable regulatory approach and are the following:

MX FRS B-10 "Effects of inflation". Included in paragraph 16 are monetary assets and liabilities denominated in some other unit of exchange, such as Investment Units.

MX FRS B-15 "Conversion of foreign currencies". Included in paragraph 11 are the balances of monetary items denominated in some other unit of exchange, such as Investment Units.

MX FRS C-3 "Accounts receivable". The wording of the scope is adjusted, referring to the general concept "accounts receivable" and not to the specific concept "trade accounts receivable"

MX FRS C-16 "Accounts receivable". The reference to "trade accounts receivable" is deleted.

MX FRS B-1 "Accounting changes and error corrections". Adjustments are made to paragraphs 11 and 12, since paragraph 12 duplicated what was already established in paragraph 21 of the same NIF, regarding the impracticality of presenting accounting changes, corrections of errors or reclassifications retrospectively.

MX FRS B-17 "Determination of fair value". The list of particular NIFs where fair value is treated is updated, incorporating NIF B-11 Disposals of long-lived assets and discontinued operations, C-3 Accounts receivable, C-15 Impairment in the value of long-lived assets and C-22 Cryptocurrencies. Likewise, the concepts of credit risk and default are included in paragraph 46.1.1, eliminating the reference to NIF C-19 Financial instruments payable.

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).

Initial effects of the application of the IFRS Standard

The initial effects of the application of IFRS Standards, recognized in Prior year income in the item of Gain or loss on accounting changes are discussed in detail below:

	Amount
Transaction costs (traditional deposit)	$ 29
Allowance for expected credit losses (Other accounts receivable)	37
Allowance for expected credit losses (Investment in financial instruments)	(370)
Preventive estimate for credit risks	966
Utility	$ 662