Grupo Financiero BBVA Bancomer, S.A. de C.V. and Subsidiaries

Consolidated Financial Statements

December 31, 2020 and 2019

(With Independent Auditors' Report)

(Translation from Spanish Language)

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Independent Auditors' Report

To the Stockholders and Board of Directors of
Grupo Financiero BBVA Bancomer, S. A. de C. V.
(Subsidiary of Banco Bilbao Vizcaya Argentaria, S. A.):

(Millions of Mexican pesos)

Opinion

We have audited the consolidated financial statements of Grupo Financiero BBVA Bancomer, S. A. de C. V. and Subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2020 and 2019, the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of the Group, have been prepared, in all material respects, in accordance with the Accounting Criteria for Controlling Companies of Financial Groups in Mexico issued by the National Banking and Securities Commission (the Commission).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters have been addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not express a separate opinion on those matters.

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Allowance for loan losses	
See note 11 to the consolidated financial statements	
Key audit matter	**How the key audit matter was addressed in our audit**
Allowance for loan losses of the commercial credit portfolio for business activity involves significant judgments for the evaluation of the credit quality of the debtors, considering the various factors established in the Group's internal methodology approved by the Commission for the rating process of such credit portfolio, as the allocation of the collateral, guarantor's rating, assignment of "rating" for null values and impairment flag in applicable cases. In addition, the allowance for loan losses of the mortgage and credit card portfolio calculated based on the Group's internal methodologies authorized by the Commission, considers the reliability in the documentation and the updating of the information that serves of input for the calculation of such estimate. Additionally, as of December 31, 2020, the allowance for loan losses includes $6,544 of additional reserves to the allowance established based on the methodologies approved by the Commission for the Commercial, Credit Card (individual) Mortgage and Consumer portfolios, which in Management's opinion is required to cover additional potential credit risks as a consequence of the impact on the economy caused by the COVID-19 pandemic. The internal model developed by the Group for the aforementioned purpose includes judgments and significant assumptions for calculating the additional reserve, such as: the most affected sectors of the economy, projections of gross domestic product, interest rates and exchange rates, house prices index and unemployment and occupation rate, among others. Therefore, we have determined that the allowance for loan losses that is determined based on internal methodologies authorized by the Commission, as a key audit matter.	The audit procedures applied to the determination of the allowance for loan losses determined by Management and its effect on the results of the year, included among others: - tests of design and implementation of key internal controls and test of operating effectiveness over selective samples. - evaluation through selective tests of both the inputs used as well as the calculation for credit portfolios based on the internal methodology authorized by the Commission, with the involvement of our credit risk specialists. - through selective tests, substantive test of details procedures were carried out, focused at recalculating the allowance for loan losses of selected items. The main audit procedures performed to the additional reserves to the allowance for loan losses, with the participation of our credit risk specialists, consisted of: i) inspection of the approval by the Risk Committee of the policy and the model applied. ii) evaluation of the model used through selective tests of the relevant inputs used for the calculation. iii) Backtesting analysis of the input with the highest sensitivity in determining the additional reserves.

(Continued)

Derivative financial instruments not listed on recognized markets with complex valuation models	
See note 8 to the consolidated financial statements	
Key audit matter	**How the key audit matter was addressed in our audit**
The determination of the fair value at the date of the consolidated balance sheet of certain derivative financial instruments not quoted on organized markets is carried out through the use of valuation techniques that involve significant Management's judgments, mainly when the use of inputs obtained from various sources or of unobservable market data and complex valuation models, including those models related to embedded derivative financial instruments from structured notes. Therefore, we have determined the valuation of these financial instruments as a key audit matter.	As part of our audit procedures to evaluate the design and implementation of the selected controls, we obtained evidence of the approval by the Group's Risk Committee of the valuation models for derivative financial instruments used by Management and we carried out tests of operating effectiveness on load oriented controls over prices and curves in the systems processing transactions agreed with derivative financial instruments. Also, through selective tests and through the involvement of our specialists, we assess the reasonableness of these models and the inputs used. Additionally, through selective tests, we assess the determination of the fair value of derivative products that use complex valuation models.

Risks associated to technology (IT)	
Key audit matter	**How the key audit matter was addressed in our audit**
The Group operates through a complex IT environment with different processing centers. Procedures for automated accounting records and IT environment controls, which include government, general controls on development and changes of programs, access to programs and data, and operations, must be designed and operated effectively to ensure integrity and accuracy in the issuance of financial information. We identify IT systems and controls over financial reporting as a key audit matter because the accounting systems and financial reports of the Group depend primarily on these systems and the different environments of general controls for the different application systems.	According to our audit methodology and through our IT specialists, we evaluated the design and implementation of the controls over the key systems that process the Group's financial information in two areas: (i) general IT controls where we evaluate existing controls on the various technological platforms relating to user access to applications and data, management of changes in applications, management of systems development, as well as the management of operations in the production environment; and (ii) automatic controls on key processes of our audit, identifying the main information systems, of which we have analyzed the vulnerabilities related to the integrity, accuracy and availability of the information and we have identified and evaluated the operational efficiency of the implemented IT controls and the related compensatory controls, where appropriate, that mitigate such risks.

(Continued)

Technical reserves	
See note 21 to the consolidated financial statements	
Key audit matter	**How the key audit matter was addressed in our audit**
The valuation of technical reserves requires the application of the methodology approved by the National Insurance and Bond Commission (for its acronym in Spanish "CNSF") which considers complex calculations and the use of internal and external data and certain actuarial assumptions. A change in the actuarial assumptions, errors in the calculation, as well as the quality of the underlying information can generate material impacts on the estimate. Therefore, we have considered the valuation of technical reserves a key audit matter.	As part of our audit procedures: — We assessed the application of the relevant actuarial assumptions prescribed in the methodology approved by the CNSF. — We assessed through selective tests, the accuracy and completeness of the relevant data used in the calculation. — We recalculated through selective tests the determination of the estimate in accordance with the methodology approved by the CNSF. — We obtained an understanding of the process, and assessed the internal control implemented for the calculation and recording of technical reserves. — We assessed the objectivity, competence, and the findings of the external actuaries hired by Management to determine the situation and sufficiency of the technical reserves, including their evaluation of the significant assumptions and methods used by Management. Additionally, we assessed the information provided to the external actuaries was consistent with the information which was provided to us as part of our audit. The procedures described above were applied with the support of our actuarial specialists.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the Accounting Criteria established by the Banking Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

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

We also provide to those charged with governance a statement that we have complied with the applicable ethical requirements regarding independence, and we communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or the safeguards applied.

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore, consequently, the key audit matters. We describe these matters in our auditor's report unless law or regulatory provisions precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG Cárdenas Dosal, S. C.

Hermes Castañón Guzmán

México City, February 26, 2021

Grupo Financiero BBVA Bancomer, S. A. de C. V.
and Subsidiaries

Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated balance sheets

December 31, 2020 and 2019

(Millions of Mexican pesos)

Assets		**2020**	**2019**
Cash and cash equivalents (note 4)	$	223,687	150,711
Margin accounts (note 5)		32,261	18,329
Investment securities (note 6):			
Trading		386,578	373,166
Available-for-sale		227,761	160,965
Held-to-maturity		190,021	135,517
		804,360	669,648
Debtors on repurchase/resale agreements (note 7)		23,314	11,263
Derivatives (note 8):			
Trading		197,606	109,377
Hedging		16,321	10,932
		213,927	120,309
Valuation adjustments related to financial assets hedged		2,488	1,310
Current loan portfolio (note 9):			
Commercial loans:			
Business and commercial activities		488,878	507,622
Financial institutions		28,079	33,162
Government entities		161,615	143,725
		678,572	684,509
Consumer loans		284,348	302,366
Residential mortgages:			
Medium class and residential		241,968	222,023
Low income housing loans		6,941	9,190
		248,909	231,213
Total current loan portfolio		1,211,829	1,218,088
Past due loan portfolio (note 9):			
Commercial loans:			
Business and commercial		11,983	9,518
Consumer loans		16,147	10,341
Residential mortgages:			
Medium class and residential		8,824	7,033
Low income housing loans		530	562
		9,354	7,595
Total past due loan portfolio		37,484	27,454
Loan portfolio		1,249,313	1,245,542
Less:			
Allowance for loan losses (note 11)		(48,348)	(35,486)
Total loan portfolio, net		1,200,965	1,210,056
Insurance premium receivables, net (note 12)		7,528	7,097
Accounts receivable from reinsurers and bonding reinsurers, net		1,316	493
Benefits receivable on securitizations transactions (note 13)		-	25
Other accounts receivable, net (note 14)		107,286	93,904
Foreclosed assets, net (note 15)		1,317	1,438
Property, furniture and equipment, net (note 16)		36,386	38,538
Permanent investments (note 17)		1,333	1,150
Long-lived assets held for sale		107	-
Deferred income tax and ESPS, net (note 25)		24,223	22,530
Other assets (note 18):			
Deferred charges, prepayments and intangibles		24,054	16,229
Total assets	$	2,704,552	2,363,030

Liabilities and stockholders' equity		**2020**	**2019**
Deposits funding (note 19):			
Demand deposits	$	1,083,733	922,792
Time deposits:			
General public		224,386	231,111
Money market		13,862	17,807
Debt securities issued		84,052	85,806
Global deposit account without movements		4,956	4,507
		1,410,989	1,262,023
Banks and other borrowings (note 20):			
Demand loan		-	7,414
Short-term		6,985	7,040
Long-term		10,876	7,564
		17,861	22,018
Technical reserves (nota 21)		238,550	211,148
Creditors on repurchase/resale agreements (note 7)		255,330	223,805
Securities lending		5	1
Sold/pledged collaterals (note 7):			
Securities lending		63,841	47,577
Derivatives (note 8):			
Trading		210,971	127,913
Hedging		12,870	8,388
		223,841	136,301
Valuation adjustments related to financial liabilities hedged		7,915	3,042
Accounts payable from reinsurers and guarantors, net		934	75
Other accounts payable:			
Creditors on margin accounts		1,179	-
Income tax payable		-	4,116
Employee statutory profit sharing (ESPS) payable		285	224
Creditors on settlement of transactions		55,312	67,358
Creditors on cash received as collateral (note 8)		19,762	10,318
Sundry creditors and other accounts payable (note 4)		44,463	33,857
		121,001	115,873
Subordinated bonds issued (note 23)		85,181	95,061
Deferred credits and advance payments		7,540	7,754
Total liabilities		2,432,988	2,124,678
Stockholders' equity (note 26):			
Paid-in capital:			
Capital stock		9,799	9,799
Additional paid-in capital		79,333	79,333
		89,132	89,132
Earned capital:			
Statutory reserves		204	204
Retained earnings		145,650	99,568
Unrealized valuation of available-for-sale securities (note 6)		2,879	82
Unrealized valuation of cash flow hedge derivatives		(96)	(113)
Cumulative translation effect		440	440
Remeasurements of employees benefit		(9,544)	(8,002)
Net income		42,860	57,001
		182,393	149,180
Total controlling interest		271,525	238,312
Non-controlling interest		39	40
Total stockholders' equity		271,564	238,352
Commitments and contingent liabilities (note 37)			
Total liabilities and stockholders' equity	$	2,704,552	2,363,030

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Grupo Financiero BBVA Bancomer, S. A. de C. V.
and Subsidiaries

Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated balance sheets, continues

December 31, 2020 and 2019

(Millions of Mexican pesos, except otherwise noted)

Memorandum accounts

Operations on behalf of third parties		2020	2019
Current account clients:			
Clients´ bank accounts	$	41	260
Settlement of customer operations		21	9,868
		62	10,128
Clients´ securities:			
Clients´ securities received in custody		1,512,317	1,403,346
Securities and documents received as collateral		-	106
		1,512,317	1,403,452
Operations on behalf of clients:			
Repurchase/resell agreements		65	64
Collaterals received in guarantee		65	161
		130	225
Investment banking operations on behalf of third parties, net		1,604,841	1,380,485
Total of operations on behalf of third parties	$	3,117,350	2,794,290

Own transactions		2020	2019
Contingent assets and liabilities	$	805	730
Credit commitments (nota 9)		638,851	632,810
Assets in trust or mandate:			
In trust		429,883	426,149
Under mandate		223	24,269
		430,106	450,418
Assets in custody or under administration		203,467	208,960
Collaterals received by the entity (note 7)		131,586	67,693
Sold/pledged collaterals received by the entity (note 7)		106,972	54,283
Uncollected interest accrued on non-performing loans		3,524	8,432
Other memorandum accounts		3,592,498	3,490,345
Total own transactions	$	5,107,809	4,913,671

		2020	2019
Historical capital stock	$	1,020	1,020
Shares delivered in custody (units)		15,854,682,820	15,854,682,820

See accompanying notes to the consolidated financial statements.

"These consolidated balance sheets, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect all the transactions carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions.

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

SIGNATURE	SIGNATURE	SIGNATURE	SIGNATURE
Eduardo Osuna Osuna General Director	Luis Ignacio De la Luz Dávalos General Director of Finance	Adolfo Arcos González General Director of Internal Audit	Ana Luisa Miriam Ordorica Amezcua Director of Corporate Accounting

Grupo Financiero BBVA Bancomer, S. A. de C. V.
and Subsidiaries

Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated statements of income

Years ended December 31, 2020 and 2019

(Millions of Mexican pesos)

		2020	2019
Interest income (note 30)	$	191,740	210,583
Insurance premium income (note 30)		24,717	23,056
Interest expense (note 30)		(55,289)	(71,667)
Net increase in technical reserves (note 30)		2,767	333
Claims and other contractual obligations, net (note 30)		(28,452)	(25,311)
Net interest income		135,483	136,994
Allowance for loan losses (note 11)		(47,128)	(35,716)
Net interest income adjusted for allowance for loan losses		88,355	101,278
Commissions and fee income (note 31)		42,932	45,527
Commissions and fee expense (note 31)		(17,066)	(18,211)
Financial intermediation income (note 32)		12,716	13,110
Other operating (expense) income		(481)	1,143
Administrative and promotional expenses		(66,090)	(64,839)
Net operating income		60,366	78,008
Equity in the income of unconsolidated subsidiaries and associated companies (note 17)		69	53
Income before income tax		60,435	78,061
Current income tax (note 25)		(20,436)	(25,930)
Deferred income tax, net (note 25)		2,860	4,872
Income before non-controlling interest		42,859	57,003
Non-controlling interest		1	(2)
Net income	$	42,860	57,001

See accompanying notes to consolidated financial statements.

"These consolidated statements of income, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect the income and expenses carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years ended noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions.

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

SIGNATURE

Eduardo Osuna Osuna
General Director

SIGNATURE

Luis Ignacio De la Luz Dávalos
General Director of Finance

SIGNATURE

Adolfo Arcos González
General Director of Internal Audit

SIGNATURE

Ana Luisa Miriam Ordorica Amezcua
Director of Corporate Accounting

Grupo Financiero BBVA Bancomer, S. A. de C. V.
and Subsidiaries

Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated statements of changes in stockholders' equity

Years ended December 31, 2020 and 2019

(Millions of Mexican pesos)

	Paid-in capital		Earned capital								
	Capital stock	**Additional paid-in capital**	**Statutory reserves**	**Retained earnings**	**Unrealized valuation of available-for-sale securities**	**Unrealized valuation of cash flow hedge derivatives**	**Cumulative translation effect**	**Remeasurements of employees' defined benefit plans**	**Net income**	**Non controlling interest**	**Total stockholders' equity**
Balances as of December 31, 2018	$ 9,799	79,333	204	83,777	(1,849)	(106)	440	(7,380)	52,638	39	216,895
Changes resulting from stockholders' resolutions (note 26):											
Appropriation of prior year's net income	-	-	-	52,638	-	-	-	-	(52,638)	-	-
Dividends declared	-	-	-	(36,846)	-	-	-	-	-	-	(36,846)
Total	-	-	-	15,792	-	-	-	-	(52,638)	-	(36,846)
Changes related to the recognition of comprehensive income (note 26):											
Net income	-	-	-	-	-	-	-	-	57,001	2	57,003
Valuation effects of available-for-sale securities	-	-	-	-	1,931	-	-	-		-	1,931
Unrealized valuation of cash flow hedge derivatives	-	-	-	-	-	(7)	-	-	-	-	(7)
Remeasurements of employees' defined benefit plans	-	-	-	-	-	-	-	(622)	-	-	(622)
Consolidation effect	-	-	-	(1)	-	-	-	-	-	(1)	(2)
Total	-	-	-	(1)	1,931	(7)	-	(622)	57,001	1	58,303
Balances as of December 31, 2019	9,799	79,333	204	99,568	82	(113)	440	(8,002)	57,001	40	238,352
Changes resulting from stockholders' resolutions (nota 26):											
Appropriation of prior year's net income	-	-	-	57,001	-	-	-	-	(57,001)	-	-
Dividends declared	-	-	-	(10,919)	-	-	-	-	-	-	(10,919)
Total	-	-	-	46,082	-	-	-	-	(57,001)	-	(10,919)
Changes related to the recognition of comprehensive income (note 26):											
Net income	-	-	-	-	-	-	-	-	42,860	-	42,860
Valuation effects of available-for-sale securities	-	-	-	-	2,797	-	-	-	-	-	2,797
Unrealized valuation of cash flow hedge derivatives	-	-	-	-	-	17	-	-	-	-	17
Remeasurements of employees' defined benefit plans	-	-	-	-	-	-	-	(1,542)	-	-	(1,542)
Consolidation effect	-	-	-	-	-	-	-	-	-	(1)	(1)
Total	-	-	-	-	2,797	17	-	(1,542)	42,860	(1)	44,131
Balances as of December 31, 2020	$ 9,799	79,333	204	145,650	2,879	(96)	440	(9,544)	42,860	39	271,564

See accompanying notes to consolidated financial statements.

"These consolidated statements of changes in stockholders' equity, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect all the stockholders' equity entries relating to the transaction carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years ended noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions.

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

SIGNATURE	SIGNATURE	SIGNATURE	SIGNATURE
Eduardo Osuna Osuna	Luis Ignacio De la Luz Dávalos	Adolfo Arcos González	A na Luisa Miriam Ordorica Amezcua
General Director	General Director of Finance	General Director of Internal Audit	Director of Corporate Accounting

Grupo Financiero BBVA Bancomer, S. A. de C. V.
and Subsidiaries

Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated statements of cash flows

Years ended December 31, 2020 and 2019

(Millions of Mexican pesos)

		2020	2019
Net income	$	42,860	57,001
Items not requiring cash flows:			
Net impairment effect from investment activities		351	(252)
Depreciation of property, furniture and equipment		2,381	3,268
Amortization of installation costs		1,817	1,238
Amortization of intangible assets		1,792	1,465
Technical reserves		(2,767)	(333)
Provisions		(1,860)	(563)
Current and deferred income tax		17,576	21,058
Equity in income of non-consolidated subsidiaries and associated companies		(69)	(53)
Non-controlling interest		(1)	2
		62,080	82,831
Operating activities:			
Change in margin accounts		(13,441)	(8,075)
Change in investment securities		(128,895)	(89,926)
Change in debtors on repurchase/resale agreements		(12,051)	(2,669)
Change in trading derivatives (asset)		(88,229)	16,427
Change in loan portfolio, net		17,216	(83,293)
Change in debtors insurance premium receivable, net		(431)	(437)
Change in reinsurers and bonding reinsurers, net (asset)		(823)	(195)
Change in benefits receivable on securitization transactions		25	62
Change in foreclosed assets, net		121	321
Change in other operating assets, net		(12,400)	(18,791)
Change in deposits funding		139,465	73,206
Change in bank and other borrowings		(4,236)	4,217
Change in technical reserves		30,169	30,447
Change in creditors on repurchase/resale agreements		31,525	23,003
Change in securities lending (liabilities)		4	-
Change in sold/pledged collaterals		16,264	8,139
Change in trading derivatives (liabilities)		83,058	(1,092)
Change in accounts receivable from reinsurers and guarantors, net (liability)		860	34
Change in subordinated bonds issued with liabilities characteristics		(14,349)	(2)
Change in other operating liabilities		7,929	(58,832)
Change in hedging instruments (from hedged items related to operating activities)		2,606	3,003
Payment of income taxes		(32,176)	(20,417)
Net cash provided by operating activities		84,291	(42,039)
Investment activities:			
Proceeds from property, furniture and equipment disposals		27	658
Payments for property, furniture and equipment acquisitions		(2,385)	(2,199)
Proceeds from subsidiaries and associates sold		3	1
Payments for increase in participation of subsidiaries and associates		(262)	-
Proceeds from cash dividends		1	1
Proceeds from long-lived assets held for sale		(107)	-
Payments on acquisition of intangible assets		(1,731)	(2,631)
Net cash flows used in investing activities		(4,454)	(4,170)
Net cash flows used in financing activities - Payment of cash for dividends		(10,919)	(36,846)
Net increase (decrease) in cash and cash equivalents		68,918	(83,055)
Effects from cash and cash equivalents value changes		4,058	(2,913)
Cash and cash equivalents at the beginning of the year		150,711	236,679
Cash and cash equivalents at the end of the year	$	223,687	150,711

See accompanying notes to consolidated financial statements.

"These consolidated statements of cash flows, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect the cash inflows and outflows carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years ended noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions.

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

SIGNATURE	**SIGNATURE**
Eduardo Osuna Osuna General Director	Luis Ignacio De la Luz Dávalos General Director of Finance
SIGNATURE	**SIGNATURE**
Adolfo Arcos González General Director of Internal Audit	Ana Luisa Miriam Ordorica Amezcua Director of Corporate Accounting

Grupo Financiero BBVA Bancomer, S.A. de C.V. and Subsidiaries

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(Millions of Mexican pesos, except otherwise noted)

(1) Activity and operating regulatory environment-

Grupo Financiero BBVA Bancomer, S. A. de C. V. and Subsidiaries (the "Group"), is a direct subsidiary of Banco Bilbao Vizcaya Argentaria, S. A. ("BBVA"), and is governed, among others, by the Law Regulating Financial Groups (*Ley para Regular las Agrupaciones Financieras*) (the "Law") as well as the General Rules Applicable to Financial Group Holding Companies (*Disposiciones de Carácter General Aplicables a las Sociedades Controladoras de Grupos Financieros*) (the "Regulations") which regulate any matters corresponding to the National Banking and Securities Commission (the "Commission") and the National Insurance and Bonding Commission (the "CNSF") (collectively, the "Surveillance National Commissions"), and, therefore, is under inspection and surveillance of the Commission. The Group's purpose is acquiring and managing shares issued by multiple banking entities, broker-dealers, insurance companies, investment fund manager, financial entities and any other type of corporations that determines the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*) (SHCP), pursuant to the provisions of the Law. The Group has its address at Avenida Paseo de la Reforma No. 510, Colonia Juárez, Cuauhtémoc, Mexico City, C. P. 06600.

The operations of the Group's subsidiaries have the main purpose of providing services as multiple banking activities, acting as intermediary in the stock exchange, providing insurance and pension services, managing investment fund assets and securities portfolios, as well as providing administrative services. These subsidiaries are governed mainly by the Financial Institutions Law (*Ley de Instituciones de Crédito*), the Securities Market Law (*Ley del Mercado de Valores*), the Insurance and Bonding Institutions Law (*Ley de Instituciones de Seguros y de Fianzas*), the General Corporations Law (*Ley General de Sociedades Mercantiles*), and the general provisions issued by the Mexican central bank (Banco de México) (the "Central Bank"), among other applicable laws.

The powers vested in the Commission -as the entity regulating financial groups-, include reviewing the Groups' financial information and ordering any modifications thereto, if any.

By operation of law, the Group is unlimitedly liable for the obligations and losses of each one of its subsidiaries.

The Extraordinary Shareholders' Meeting of the Group on August 10, 2020 determined to change the current corporate name for Grupo Financiero BBVA México, S. A. de C. V., the name will become effective upon compliance of the regulatory and tax requirements which are in progress, at the date of issuance of the accompanying consolidated financial statements.

Significant restrictions in the Group

The Holding Company may only contract direct or contingent liabilities and give as security its properties in the case of the sole agreement of responsibilities referred to in article 119 of the Law to regulate Financial Groups, of operations with the Institute for the Protection of Banking Savings, and with authorization from the Central Bank, in the case of the issuance of subordinated obligations of forced conversion to securities representing its capital and of obtaining short-term credits, while the placement of shares is carried out due to the incorporation or merger of that the aforementioned Law refers to.

Payment of dividends may be suspended in whole or in part through the application of corrective measures that aim to prevent and, where appropriate, correct any problems that may arise that may affect the financial stability or solvency of the Holding Company or financial entities members of the Group. During 2020 and 2019, the Group was not in any of these cases.

(2) Authorization and basis of presentation-

Authorization

On February 25, 2021, Eduardo Osuna Osuna, General Director, Luis Ignacio De La Luz Dávalos, Chief Financial Officer, Adolfo Arcos González, Head of Internal Audit, and Ana Luisa Miriam Ordorica Amezcua, Head of Corporate Accounting, authorized the issuance of the accompanying consolidated financial statements and the notes thereto (hereinafter, the "financial statements").

The Group's shareholders and the Commission are authorized to amend the financial statements after their issuance. The accompanying 2020 financial statements will be submitted to the next Shareholders' Meeting for approval.

Basis of presentation

(a) Declaration of compliance

The Group's financial statements have been prepared in accordance with the accounting criteria for Financial Group Holding Companies (the "Accounting Criteria") established by the Commission. The Commission is responsible for inspecting and supervising financial groups and reviewing their financial information.

The Accounting Criteria states that the Commission shall issue specific rules for specialized transactions and indicates that without specific criteria of the Commission and, in a broader context, if there are no criteria established in the Mexican Financial Reporting Standards (for its acronym in Spanish "NIF" *Normas de Información Financiera*) (Mexican FRS) issued by the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A.C.) (for its acronym in Spanish "CINIF"), any absence shall be supplied as provided in Mexican FRS A-8. Any supplementary standard that belongs to any other regulatory framework may only be used if the International Financial Reporting Standards (IFRS) referred to in Mexican FRS A-8 do not establish an accounting criterion, provided that all requirements provided in the Mexican FRS are met. The hierarchy should follow the next order: generally accepted accounting principles in the United States of America (US GAAP) and any accounting standard that is part of a formal and recognized set of standards, provided that the requirements of the Commission's criterion A-4 are met.

(b) Use of judgment and estimates

The preparation of the financial statements requires Management to make several of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the period.

Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is described in the notes to the financial statements mentioned below:

- Note 6 – Investments in securities: Securities market values with no observable market.
- Note 8 –Valuation of derivative financial instruments: Key assumptions to determine market value, especially those complex derivatives or with no active market.
- Notes 11 and 14 –Determination of allowance for loan losses and recoverability of accounts receivable: Assumptions and inputs used in its determination.
- Note 16 –Valuation of property, furniture and equipment: Impairment tests of fixed assets values, including the key assumptions for determining the recoverable amount of those assets.
- Note 21 –Technical reserves: Key actuarial assumptions for estimating the expected future value obligations, derived from payments of claims, benefits, guaranteed securities, dividends, acquisition and administration expenses, as well as any other future obligation derived from insurance contracts, plus a risk margin.
- Note 22 –Labor obligations: Key actuarial assumptions.
- Note 25 –Recognition of deferred tax assets: Availability of future taxable income, and the realization of deferred tax assets.

Assumptions and estimation uncertainties

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

- Note 6 –Investments in securities: Securities market values without an observable market.
- Note 8 –Valuation of derivative financial instruments: Key assumptions to determine market value, especially those complex derivatives or without an active market.
- Notes 11 and 14 –Determination of allowance for loan losses and recoverability of accounts receivable: assumptions and inputs used in its determination.
- Note 16 –Valuation of property, furniture and equipment: Impairment tests of fixed assets values, including the Key assumptions for determining the recoverable amount of those assets.
- Note 21 –Technical reserve, key actuarial assumptions for the estimation of the expected future value obligations, derived from payments of claims, benefits, guaranteed securities, dividends, acquisition and administration expenses, as well as any other future obligation derived from insurance contracts, plus a margin of risk.
- Note 22 –Measurement of obligations for defined benefits: Key actuarial assumptions.
- Note 25 –Recognition of deferred tax assets: Availability of future taxable income, and the realization of deferred taxes assets.

(c) Functional and reporting currency

The aforementioned financial statements are presented in the Group’s reporting currency, Mexican pesos, which is the same as its recording and functional currency.

For disclosure purposes in the notes to the financial statements, any reference to “pesos” or “$” means millions of Mexican pesos, and references to “dollars” or “USD” means millions of U.S. dollars.

(d) Financial assets and financial liabilities recognition on trade date

Assets and liabilities related to the purchase and sale of foreign currencies, investment securities, repurchase/resale agreements, securities lending, and derivative financial instruments are recognized in the financial statements on the trade date, regardless of the settlement date.

(e) Comprehensive income

This caption consists of the net result of the year plus other items that represent a gain or loss in the same year, which, according to the accounting practices followed by the Group, are presented directly in the stockholders' equity without the requirement to present a statement of comprehensive income, such as the gain or loss from valuation of securities available for sale, the gain or loss from valuation of cash flow hedge instruments and the cumulative translation effect, as well as the remeasurement of employee defined benefits plans.

(3) Summary of significant accounting policies -

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been consistently applied by the Group.

(a) Recognition of the effects of inflation-

The Group's financial statements were prepared in accordance with the Accounting Criteria, which include the recognition of the effects of inflation on financial information through December 31, 2007, as the Group operates in a non-inflationary environment as from 2008 (cumulative inflation over the last three years less than 26%), using for such purpose the investment unit (for its acronym in Spanish "UDI"), a unit used to measure inflation and whose value is determined by the Central Bank.

Percentages of inflation measured through the value of the UDI for the years ended on December 31, 2020, 2019 and 2018 were 3.23%, 2.77% and 4.92%, respectively; therefore, annual accrued inflation of the last three years before December 31, 2020, 2019 and 2018 was 11.31%, 15.03% and 15.71%, respectively, the reason why the economic environment for both years qualifies as non-inflationary. As mentioned above, the cumulative effects of the inflation until December 31, 2007 are recorded in the consolidated balance sheet as of December 31, 2020 and 2019

(b) Basis of consolidation -

The accompanying financial statements include the Group's financial statements, and the subsidiaries it controls and the consolidated trusts arising from securitization transactions. All significant inter-company balances and transactions have been eliminated.

The subsidiaries' financial statements have been prepared according to the accounting criteria established by the Commission, except for the insurance Institutions financial statements, which are prepared under the accounting criteria for insurance and bonding companies in Mexico, issued by the CNSF.

The subsidiaries consolidated with the Group as of December 31, 2020 and 2019, are detailed in the next page.

Company	Participation in Consolidation	Activity
BBVA Bancomer, S.A., Institución de Banca Múltiple and Subsidiaries (the Bank)	99.99%	Multiple banking activities
Casa de Bolsa BBVA Bancomer, S.A. de C.V. (the Broker-Dealer)	99.99%	Brokerage services
BBVA Bancomer Operadora, S.A. de C.V. and Subsidiaries	99.99%	Administrative services
BBVA Bancomer Servicios Administrativos, S.A. de C.V. and Subsidiary	99.99%	Administrative services
BBVA Bancomer Gestión, S.A. de C.V., Sociedad Operadora de Fondos de Inversión (the Fund Manager)	99.99%	Investment fund manager
Seguros BBVA Bancomer, S.A. de C.V. and Subsidiaries (Seguros BBVA Bancomer)	99.99%	Insurance company
Pensiones BBVA Bancomer, S.A. de C.V. and Subsidiaries (Pensiones BBVA Bancomer)	99.99%	Insurance company specializing in pensions
BBVA Bancomer Seguros Salud, S.A. de C.V. (Seguros Salud)	99.99%	Insurance company specializing in health care

(c) Offsetting financial assets and financial liabilities-

Financial assets and liabilities are subject to offsetting so that the consolidated balance sheet shows the debit or credit balance, as applicable, if and only if, there is a contractual right to offset the amounts and the intention to settle the net amount, or to realize the asset and write-off the liability simultaneously.

(d) Cash and cash equivalents-

Cash and cash equivalents consist of cash in hand, deposits with Mexican and foreign banks in pesos and dollars, as well as 24, 48, 72 and 96 hour foreign currency purchase and sale transactions. Also includes bank borrowings with original maturities of up to three days ("Call Money"), and monetary regulation deposits at the Central Bank (these latter deposits considered of restricted availability are formed pursuant to Official Circular 3/2012 "Provisions applicable to transactions of financial institutions and the rural financial entity," issued by the Central Bank, with the purpose of regulating the liquidity of the money market, which accrue interest at the banking funding rate), remittances in transit and auctions carried out by the Central Bank.

Cash and cash equivalents are recognized at nominal value. For balances in dollars, the exchange rate is the one published by the Central Bank on the day of translation in accordance with the rules issued by the Commission. As of the date of the financial statements, gains or losses due to the translation effect and accrued interest income are recognized in the results of the year.

The foreign exchange currencies acquired and agreed to be settled in 24, 48, 72 and 96 hours, are recognized as restricted cash (foreign currency to receive), while the currencies sold are recorded as cash outflow (foreign currency to deliver). The rights and obligations for the sale and purchase of foreign exchange at 24, 48, 72 and 96 hours are recorded in clearing accounts under the caption "Other accounts receivable, net" and "Other accounts payable", respectively.

The amount of overdrafts in checking accounts, the offsetting balance of foreign currency to be delivered exceeding the foreign currency to be received or of some other concept in cash and cash equivalents with a credit balance, are presented under the caption "Sundry creditors and other accounts payable."

(e) Margin accounts-

Margin accounts are made up of the collateral pledged in cash (and in other assets equivalent to cash) required from entities entering into transactions with derivative financial instruments carried out in organized markets exchanges, recorded at nominal value.

For margin accounts assigned to the clearinghouse different from cash, as would be the case of debt instruments or shares, where the clearinghouse has the right to sell or pledge the financial assets which make up such margin accounts, the financial asset pledged is presented as restricted, and the valuation and disclosure standards are followed in accordance with the respective accounting treatment according to its nature.

The returns and fees that affect margin accounts, other than the fluctuations in the prices of derivatives, are recognized in the results of the year as accrued under "Interest income" and "Commissions and fee expense", respectively. Partial or total settlements deposited or withdrawn by the clearinghouse due to fluctuations in the prices of derivatives are recognized under "Margin accounts", affecting as a counterpart a specific account that may be debtor or creditor, as appropriate, and that represents an advance received, or a financing granted by the clearinghouse and that will reflect the effects of the valuation of the derivatives prior to settlement.

Margin accounts are intended to comply with the obligations associated with transactions involving financial derivatives performed in organized markets and stock exchanges and refer to the initial margin, contributions and subsequent disbursements made during the effective term of the respective contracts.

(f) Investment securities-

Investment securities consist of government securities, bank promissory notes, and other debt securities listed or not in recognized markets, which are classified using the categories shown below, based on the intention of management of the Group on their ownership.

- *Trading securities-*

Trading securities are those debt securities and equity shares in which the Institution invests to take advantage of short-term market fluctuations. The transaction costs for the acquisition of the securities are recognized in results of the year on the acquisition date. They are initially accounted at acquisition cost, which is equivalent to their fair value, and then at fair value using prices provided by an independent price vendor, whose valuation effect is included in the consolidated statement of income under "Financial intermediation income".

- *Securities available-for-sale-*

Consist of securities acquired with an intention other than obtaining gains from trading them on the market or holding them to maturity. These securities are measured in the same manner as “Trading securities”, with unrealized gains or losses valuation recognized in stockholders’ equity net of deferred taxes, which is recycled in earnings at the time of sale.

- *Securities held to maturity-*

Securities held to maturity are debt instruments with fixed or determinable payments or stated maturity, acquired with both the intent and the capacity of holding them to maturity. These instruments are accounted for using amortized cost, thus affecting the results of the year based on accrued interest and the discount or markup received or paid for their acquisition according to the effective interest method.

The Group determines the increase or decrease on fair value using prices provided by a price vendor, who uses different market factors in its determination.

Cash dividends of equity shares are recognized in the results for the year in the same period in which the right to receive the related payment is generated.

- *Transfers between categories-*

Transfers from the category of “Held-to-maturity” to “Available-for-sale” securities, are permissible only when there is no intention or ability to hold them until maturity; the valuation result corresponding to the transfer date is recognized in stockholders’ equity. Reclassifications from any category to “Held-to-maturity securities” and from “Trading securities” to “Available-for-sale,” can be done with the Commission authorization.

During the years ended December 31, 2020 and 2019, there were no transfers between categories.

- *Impairment-*

The Group must assess whether there is objective evidence regarding the impairment of a security at the consolidated balance sheet date. A security is only considered to be impaired and, accordingly, an impairment loss is only incurred when there is objective evidence of this impairment as a result of one or more events which occurred after its initial recognition, which affected estimated future cash flows and can be reliably determined.

As of December 31, 2020, and 2019, the Group’s management has not identified objective evidence of impairment of any securities.

- *Value date transactions-*

Securities purchased with a settlement date of a maximum of four working days after trade date, are recorded as restricted securities, while securities sold are recorded as securities to deliver reducing the investment securities position. The corresponding debit or credit is made to an asset or liability clearing account, as it corresponds.

When the amount of the securities to deliver exceeds the proprietary position of the same type of security (government, bank, equities and other debt securities), the amount is shown as a liability under “Assigned values to be settled.”

(g) Repurchase/resale agreements-

Repurchase agreements are recorded as follows:

The repurchase/resale agreements that do not comply with the terms of criterion C-1 "Recognition and derecognition of financial assets", are treated as collateralized financing transactions, which reflects the economic substance of those transactions. This treatment is adopted regardless of whether it is "cash oriented" or "securities-oriented" repurchase/resale agreement.

Acting as seller on resale agreements-

On the contract date of the repurchase/resale agreements, either cash is received and recorded or a debit clearing account is created as well as a payable account valued at the price agreed at origination and represents the obligation to repay the cash to the seller at a future date. Throughout the term of the repurchase/resale agreements, the payable accounts are valued at amortized cost and the corresponding accrued interest is recorded in the results of the year, in accordance with the effective interest rate method.

In relation to the collateral granted, financial assets transferred to the seller are reclassified by the Group in the consolidated balance sheet, and presented as restricted securities, which continue to be valued in accordance with the accounting policy of the corresponding asset classification, until the maturity date of the repurchase/resale agreement.

Acting as buyer on repurchase agreements-

When the Group acts as a buyer, on the date of contracting the repurchase agreement transaction, it recognizes the outflow of cash or a creditor settlement account, recording an account receivable initially measured at the agreed price, which represents the right to recover the cash delivered. The account receivable is valued later during life of the repurchase agreement at amortized cost through the recognition of the effective interest method in the results of the year.

In relation to the collateral received in repurchase transactions other than cash, it is recognized in memorandum accounts, by following the guidelines on custody transactions provided in accounting criterion B-9, "Custody and Administration of Assets" until the maturity date of the repurchase/resale agreement.

When the buyer sells the collateral or provides it as a guarantee, the proceeds from the transaction are recognized, as well as an account payable for the obligation to repay the collateral to the selling party (measured initially at the price agreed), which is valued at fair value in case of a sale, or, if it is given as collateral in another repurchase transaction, at amortized cost, (any spread between the price received and the value of the account payable is recognized in results of the year), the control of such sold or pledged collateral is performed in memorandum accounts, by applying for valuation purposes the standards for custody transactions provided in accounting criterion B-9.

Furthermore, if the buyer then becomes a seller for another repurchase transaction using the same collateral received as guarantee for the initial transaction, the repurchase interest agreed in the second transaction must be recognized in results of the year as it is accrued, in accordance with the effective interest method, adjusting the account payable valued at amortized cost as mentioned above.

The memorandum accounts recorded for collateral received which were in turn sold or pledged by the buyer, are canceled when the collateral sold is acquired to repay it to the seller, or when the second transaction in which the collateral was granted reaches maturity or there is a default on the part of the counterparty.

(h) Securities lending-

Securities lending are transactions in which the transfer of securities is agreed from the lender to the borrower, with the obligation to return such securities or other substantially similar ones on a given date or as requested, in exchange for an interest as consideration. In these transactions, a collateral or guarantee is requested by the lender from the borrower.

Acting as lender-

At the contract date of the securities lending transaction, when the Institution acts as lender, it records the security subject matter of the lending transferred to the borrower as restricted, for which purpose the standards for valuation, presentation and disclosure, based on the respective accounting treatment, are followed. Furthermore, the collateral received to guarantee the securities loaned is recorded in memorandum accounts.

The amount of the interest earned is recognized in results of the year through the effective interest method during the term of the transaction, under the "Interest income" caption."

Acting as borrower-

At the contract date of the securities loan transaction, the Group records the security subject matter of the loan received in memorandum accounts, following the valuation guidelines for the securities recognized, in the accounting criterion B-9 "Assets in custody or under administration".

The security subject matter of the transaction received, and the collateral received are presented in memorandum accounts under the heading of "Collateral received" by the Group. The collateral received from other transactions are presented under the caption of "Collateral sold/pledged".

The amount of accrued interest is recognized in the result of the year using the effective interest method during the term of the transaction, under the heading "Interest expense."

(i) Settlement clearing accounts-

Amounts receivable or payable for investment securities, repurchase/resale agreements, securities lending and/or derivative financial instruments which have expired but have not been settled are recorded in clearing accounts under "Other accounts receivable" and "Creditors on settlement of transactions", respectively, as well as the amounts receivable or payable for the purchase or sale of foreign currencies, which are not for immediate settlement or those with a same day value date.

Financial assets and liabilities are offset and the net amount presented in the balance sheet as debit or credit balance, as appropriate, only when the Institution has a contractual right to offset amounts and intends either to settle them on a net basis or to realize the asset and cancel the liability simultaneously.

(j) Derivatives-

The Group carries out two different types of transactions in accordance with its intention:

– Trading - Consists of the position assumed by the Group as market participant for purposes other than hedging open risk positions.

– Hedging - Consists of the purchase or sale of derivative financial instruments to reduce the risk of a transaction or group of transactions.

The Group's policies require that for purposes of entering into derivative transactions, the rating and, where appropriate, authorization of risk exposure by each of the counterparties of the financial system that has been authorized by the Central Bank for the execution of this type of transactions, are required. Prior to carrying out these transactions with corporate clients, a credit line authorized by the Credit Risk Committee or realizable guarantees must be in place through the pertinent bond contracts. Transactions involving mid-sized and small businesses, as well as individuals, are carried out through readily realizable guarantees established in bond contracts.

The assets and/or liabilities arising from transactions with derivative financial instruments are recognized in the consolidated financial statements on the date the transaction is carried out, regardless of the date of settlement or delivery of the asset.

The Group initially recognizes all derivatives (including those forming part of hedges) as assets or liabilities (depending on the rights and/or obligations they embody) in the consolidated balance sheet at fair value, which presumably reflects the price at which the transaction was agreed. Any transaction costs that are directly attributable to the acquisition of the derivative are directly recognized in results under "Financial intermediation income."

All derivatives are subsequently valued at fair value without deducting the transaction costs incurred for their sale or other types of disposal; this valuation effect is then recognized in the results of the period under "Financial intermediation income."

Derivatives must be presented under a specific asset or liability caption depending on whether their fair value (as a consequence of the rights and/or obligations they embody) results in a debit or credit balance, respectively. These debit or credit balances can be offset as long as they comply with the offsetting rules provided in the applicable accounting criterion.

In the consolidated balance sheet, "derivatives" must be split between those held for trading and hedging purposes.

The determination of fair value considers the information and inputs provided by the price vendor authorized by the Commission, or an internal valuation process, provided there are no derivative financial instruments listed on domestic exchanges or traded in markets recognized by the Central Bank.

Trading transactions-

– *Warrants-*

  Optional securities are documents which represent a temporary right acquired by the holders in exchange for the payment of a premium for the issuance in Equity Shares or Indexes, whereby such right expires at the end of the effective term. Therefore, holding such securities implies that the intrinsic value and the market price of the optional security in the secondary market may vary based on the market price of the reference assets.

– *Forwards and futures contracts-*

Its balance represents the difference between the fair value of the contract and the contracted forward price. If the difference is positive, it is considered as surplus and presented under assets; if negative, it is considered as a deficit and presented under liabilities.

– *Options-*

For purchased options, the balance represents the fair value of future cash flows to be received, and the valuation effects are recognized in results of the year.

For sold options, the balance represents the fair value of future cash flows to be delivered, and the valuation effects are recognized in results of the year.

– *Swaps-*

The balance represents the difference between the fair value of the asset and the liability.

Hedging transactions-

Hedging derivatives are valued at market value, and the effect is recognized depending on the type of hedge accounting, as follows:

a. If they are fair value hedges, the primary hedged position and the net effect of the derivative hedge instrument which is measured at fair value is recorded in results of the period under “Financial intermediation income”.

b. If they are cash flow hedges, the hedge derivative is measured at fair value and the valuation of the effective part of the hedge is recorded under “Result from valuation of cash flow hedges” in stockholders’ equity. The ineffective portion is recorded in results of the period under the heading “Financial intermediation income”.

c. Hedges of a net investment in a foreign transaction that complies with all the conditions are accounted for in manner similar to cash flow hedges; the effective portion is recognized in stockholders’ equity and the ineffective portion is recognized in results.

Embedded derivatives-

– The Group bifurcates the embedded derivatives of structured notes, whereby the reference underlying is based on the exchange rate, stock indexes, interest rate options with extendable periods and UMS bond price options.

In the case of debt and bond contracts in which the reference underlying is an interest rate with implied cap, floor and collar, the reference underlying’s are considered to be closely related to the host contract, and consequently, these items are not bifurcated. Accordingly, the main contract issued for debt and bonds is recorded based on the applicable criteria to each contract, at the amortized cost in both cases.

Collateral granted and received in derivatives transactions performed over the-counter markets-

– The account receivable from cash collateral provided in derivative transactions performed over-the-counter markets is presented under the heading "Other accounts receivable, net", whereas the account payable generated for the reception of collateral provided in cash is presented under the heading "Sundry creditors and other accounts payable."

  Collateral delivered in securities is recorded as restricted securities for guarantees, and collateral received in securities for derivative transactions is recorded in memorandum accounts.

(k) Loan portfolio-

The balances in the loan portfolio represent the amounts disbursed to borrowers, plus accrued but unpaid interest less prepaid interest. The "Allowance for loan losses" is presented as a deduction from the total loan portfolio balance.

The Group classifies its portfolio under the following:

a. Commercial: Direct or contingent loans, including bridge loans, denominated in Mexican pesos or foreign currency, as well as any accrued interest, granted to corporations or individuals with business activities and used in relation to commercial or financial line of activity; includes loans granted to financial institutions (excluding interbank loans with maturities of less than three business days), loans for factoring transactions and loans related to finance lease transactions which are entered into with such corporations or individuals; loans granted to trustees who act on behalf of trusts and credit schemes commonly known as "structured loans" in which there is a change in net assets that allows for the individual assessment of the risk associated with the scheme. Also included are loans granted to States, Municipalities and decentralized agencies.

b. Residential mortgages: Direct loans denominated in Mexican pesos, foreign currency, UDIs or multiples of the minimum wage ("VSM"), as well as any accrued interest, granted to individuals and used for the acquisition, construction, remodeling or improvement of housing, for non-business purposes; includes home equity loans and mortgage loans granted to former employees who rendered services to the Group.

c. Consumer: Direct loans, denominated in Mexican pesos, or foreign currency, as well as any accrued interest, granted to individuals in relation to credit card operations, personal loans, payroll transactions (excluding those granted through a credit card), loans for the acquisition of consumer durables and finance lease transactions which are entered into with individuals.

The undrawn lines of credit are recorded in memorandum accounts under the caption "Credit commitments".

At the time of contracting, transactions with letter of credits are recorded in memorandum accounts under the caption "Credit commitments" which, when drew down by the customer or its counterparty, are transferred to the loan portfolio.

Outstanding balance of the loan and the associated interest are classified as performing and past due, considering the following criteria:

Current loan portfolio-

– Loans that are current in the payments of both principal and interest.

– Loans that do not exhibit the characteristics of non-performing portfolio.

– Restructured or renewed loans which have evidence of sustained payment.

Non-performing loan portfolio-

– Loans with a single payment of principal and interest at maturity are considered non-performing 30 days after the date of maturity.

– Loans with a single payment of principal at maturity and with periodic interest payments are considered non-performing 90 days after interest is due.

– Loans whose principal and interest payments have been agreed in periodic installments are considered non-performing 90 days after an installment becomes due.

– If debts are composed by revolving credits with two outstanding monthly billing periods or, if the billing period is not monthly, 60 or more days after payment is due.

– Mortgage loans with periodic installments of principal and interest and are considered non-performing when a payment is 90 days or more in arrears.

– Customer checking accounts of clients that don't have authorized credit line showing overdrafts, will be reported in the non-performing portfolio at the date of the overdraft.

– If the borrower is declared bankrupt in accordance with the Commercial Bankruptcy Law, except for the loans on which the Institution continues to collect payments under the terms of fraction VIII, article 43 of the Commercial Bankruptcy Law and loans that are granted under the terms of the article 75 in relation with fractions II and III of article 224 of the Commercial Bankruptcy Law.

– Immediate collection documents referred to in Accounting Criterion B-1, "Cash and cash equivalents", of the Commission when not collected within the allotted period of time (2 or 5 days as appropriate)).

In relation to maturity terms referred to in the preceding paragraphs, monthly periods can be used, regardless of the number of days in each calendar month, according to the following equivalences: (i) 30 days are equivalent to a month; (ii) 60 days are equivalent to two months; and (iii) 90 days are equivalent to three months.

Non-performing portfolio which are restructured or renewed will remain in non-performing portfolio until there is evidence of sustained payment.

Sustained payments-

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

Regarding loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or upon maturity, it is considered that there is a sustained payment of the credit when any of the assumptions mentioned in the next page occurs.

a) the borrower has covered at least 20% of the original amount of the credit at the time of restructuring or renewal, or else,

b) the amount of interest accrued were covered according to the payment plan for restructuring or renewal corresponding to a 90-day term.

Furthermore, loans with a single payment of principal upon maturity and periodic payments of interest that are restructured or renewed during the credit term are classified as non-performing loans until there is evidence of sustained payment. Additionally, for loans where the original term of the loan has not elapsed at least 80%, and payments received would have not covered the total amount of accrued interest or covered the principal of the original amount of the loan that must have been settled as of the date of renewal or restructuring in question will be classified as non-performing loans.

The accrual of interest is suspended at the time the loan is classified as non-performing portfolio, including those loans, which, in accordance with the respective contract, capitalize interest to the amount of the debt. While a loan remains in the non-performing portfolio, accrued interest is recorded in memorandum accounts. When interest on non-performing portfolio is collected, it is recognized directly in results of the year under “Interest income”.

With regards to ordinary uncollected accrued interest on loans that are classified as non-performing portfolio, the Institution creates an allowance for the total amount of accrued interest outstanding at the time the loan is transferred to non-performing portfolio.”

Financial factoring, discount and assignment agreement of credit rights-

At the beginning of the operation, the value of the portfolio received is recognized against the cash outflow, recording the agreed value as other accounts payable and, if applicable, as deferred credit the financial income to be accrued deriving from operations of factoring, discount or assignment of credit rights.

The deferred credit income referred-to in the above paragraph will be determined, if applicable, by the difference between the value of the portfolio received reduced by the advance rate and cash outflow. This accruable financial income must be recognized in deferred credits and prepaid expenses and amortized under the straight-line method for the life of the credit under “Interest income.”

In the event that the transaction generates interest, it will be recognized as accrued.

The amount of advances granted, if any, will be recognized as part of the financial factoring, discount or assignment of credit rights, within commercial credits loans.

Financial asset derecognition-

The Group only derecognizes a financial asset when the related contractual rights expire or when the Institution transfers the financial asset because of: a) the contractual rights to receive the cash flows derived from the financial asset are transferred, or b) the contractual rights to receive the cash flows derived from the financial asset are retained, while assuming the contractual obligation to pay these cash flows to a third party.

When a portion of the financial asset is derecognized, the Group must:

a) Derecognize the portion of the transferred financial asset based on the most recent carrying amount, including, if applicable, the proportional part of the estimates and/or supplementary accounts associated with the financial asset. If applicable, the respective proportion of the unapplied or unrecognized effects associated with the financial asset must be recognized in the results of the year.

b) Recognize the payments received from or incurred by the transaction, while considering any new financial assets and assumed obligations at fair value. For recognition purposes, the Institution utilizes an accounting criterion reflecting the nature of the payment in question.

c) Recognize in the results of the year the gain or loss derived from the difference between the book value of the eliminated portion of the financial asset and the sum of (i) the received or incurred collections (recognized at fair value) and (ii) the effect (profit or loss) if any, the accrued valuation recognized in stockholders' equity.

Special accounting criteria derived from the health contingency due to COVID-19

Due to the health contingency caused by COVID-19 and the negative impact on the economy, through official communications P285/2020 dated March 26, 2020, P293/2020 dated April 15, 2020, and P325/2020 dated June 23, 2020, the Commission temporarily issued special accounting criteria for credit institutions regarding the consumer, residential mortgage and commercial loan portfolios, for clients who have been affected and were classified as current as of February 28, 2020 and March 31, 2020, depending on the date they joined the program. The Bank applied these special accounting criteria by establishing the temporary accounting policies described below:

Loans classified as current as of, either, February 28, 2020 (first program) or March 31, 2020 (second program), which incorporated into the program and subsequently restructured or renewed, were not considered as restructured loans or as past due loan according to accounting criteria B-6, as the program established a term of 120 calendar days following the aforementioned dates to conclude their incorporation to the program, and in which their new maturity date couldn´t be greater than six months later from the original maturity date, as follows:

1. Loans with a single payment of principal at maturity and periodic interest payments,

2. Loans with a single payment of principal and interest upon maturity,

3. Loans with periodic payments of principal and interest consisting of:
   i. Not having elapsed at least 80% of the original term of the loan, when the borrower has paid:
   a. all accrued interest, and
   b. the principal of the original loan amount, which must have been repaid on the date of the renewal or restructuring.

ii. During the final 20% of the original term of the loan, when the borrower has:
   a. paid all accrued interest,
   b. repaid the entire original amount of the loan that must have been repaid on the renewal or restructuring date, and
   c. 60% of the original amount of the loan is repaid.

4. The loans that from inception were classified as revolving.

Additionally, the loans that as of February 28, 2020 were classified as current for accounting purposes in which amendments were made to the original loan conditions within 120 calendar days of said date, where the risk profiles of the borrower were adjusted, and did not involve a total or partial deferral of principal and/or interest and that are different from those in Criterion B-6, when the amendments applied for a period of up to six months, were not considered as restructured loans.

For the application of the special accounting criteria described above, the Bank adhered to the following:

- It did not make contractual amendments that explicitly or implicitly consider the capitalization of interest, or the collection of any type of commission from the restructuring.
- It did not restrict, reduce or cancel the credit facilities previously authorized or agreed.
- It did not request additional guarantees or their replacement in the case of restructuring.

In compliance with the Special Accounting Criteria described above, the support programs by type of portfolio that the Bank applied included the following:

- Commercial loans (Business and Small and Medium Entities (SME)).- Grace period between four and six months for principal and/or interest. According to the negotiations with each borrower, the deferred monthly payments will be required at the expiration of the contract, with an extension of the expiration of the contract or at the end of the deferral period.
- Residential Mortgages.- Deferral of up to four monthly payments that will be due upon maturity of the loan.
- Payroll, Auto and Personal Consumer loans.- Four grace months (or eight fortnights) of principal and/or interest are granted, with an extension of the term.
- Credit Card (CC).- It consisted of deferring the enforceability of payments for four months.

In all cases, it did not apply the collection of default interest or charges for collection expenses and without affecting credit history.

(l) Allowance for loan losses-

The Group recognizes the allowance for loan losses based on the following:

i) Commercial loan portfolio-

Business and commercial-

For the commercial portfolio classified in the groups denominated “Large Enterprises” (evidenced by annual net sales over USD 50 million) and “Enterprises” (evidenced by annual net sales over 60 million pesos and below USD 50 million, except for the SME “plus” segment, comprised of borrowers that do not belong to a business group, with annual net sales between MXP60 million and MXP130 million), respectively, the Commission approved for the Institution the application of internal rating models to determine the allowance for loan losses with an advanced approach, through official communications 121-1/116843/2014 and 121-1/116844/2014 dated April 21, 2014, which are reviewed annually according to the Banking Regulations.

Additionally, in accordance with official communications 121-1/1744/2018 dated April 19, 2018 and 121-1/118708/2019 dated July 19, 2019, the Commission approved the re-estimation (calibration) of the internal models mentioned in the preceding paragraph, which includes risk parameters with information up to 2016 and 2017, parameters that were applied by the Institution as of July 2018 and July 2019, for the commercial portfolio groups of Large Enterprises and Enterprises, respectively.

In accordance with official communication 121-1/1357/2020 dated December 17, 2020, the Commission approved the update of the parameters considered by such model, with information up to 2018, parameters that have been applied by the Institution as of December 2020 for the commercial portfolio groups of Enterprises.

As the Group classifies the commercial credit loan portfolio into Large Enterprises and Enterprises groups, it considers an expected loss model for the following 12 months, according to the following:

– Probability of Default (PD) - It is estimated based on scores of a rating model pursuant to a master scale computed using the companies' financial information; for a past due portfolio, a 100% percentage is considered for this variable.

– Loss Given Default (LGD) - It is estimated through the discount of estimated cash flows to be collected, adjusted depending on the guarantee and the period of time on which the borrower has been in non-compliance

– Exposure at default (EAD) - It is determined considering the amount of the loan drawn-down balance at the end of each month, plus a percentage on the undrawn balance of the loan.

Commercial loans other that for Large Enterprises and Enterprises-

For rating the commercial portfolio other than the one corresponding to Large Enterprises and Enterprises groups, the Institution considers the PD, LGD and EAD factors, according to the Banking Regulations, as follows:

The amount of the allowance for loan losses on each loan is determined by applying the following equation:

$$R_i = PD_i \ x \ LGD_i \ x \ EAD_i$$

Where:

R_i = Amount of the allowance for loan losses to be created for the nth loan.
PD_i = Probability of Default of the nth loan.
LGD_i = Loss Given Default on the nth loan.
EAD_i= Exposure At Default on the nth loan.

PD_i will be calculated according to the following equation:

$$PD_i = \frac{1}{1 + \mathrm{e}^{-(500 - \text{Total Credit Score}_1) \ \mathrm{x} \ \frac{\mathrm{Ln}(2)}{40}}}$$

For the purpose of the above:

The total credit score of each borrower will be obtained by using the following equation:

$$Total\ Credit\ Score_i = a \ x \ (QCSt_i) + (1 - \alpha) \ x \ (QCSl_i)$$

Where:

Quantitative Credit Score$i$$(QCSt_i)$ = The score obtained for the nth borrower when evaluating the risk factors according to the Regulation.

$Qualitative\ Credit\ Score_i (QCSl_i)$	=	The score obtained for the nth borrower when evaluating the risk factors according to the Regulation.
α	=	The relative weight of the quantitative credit score.

Unsecured loans-

The LGD_i of commercial loans which are not covered by security interests in real property, or personal or credit-derived collateral will be:

a. 45%, for Preferred Positions.

b. 75%, for Subordinated Positions, in the case of syndicated loans, those which for purposes of their priority of payment are contractually subordinated in relation to other creditors.

c. 100%, for loans which are 18 months or more in arrears for the amount due and payable under the original terms.

The EAD_i will be determined based on the following:

I. For disposed balances of uncommitted credit lines which may be canceled unconditionally or which in practice allow for an automatic cancellation at any time and without prior notice:

$$EAD_i = S_i$$

II. For other credit lines:

$$EAD_i = S_i * Max\left\{\left(\frac{S_i}{Authorized\ Credit\ Line}\right)^{-0.5794}, 100\%\right\}$$

Where:

S_i	The outstanding balance of the nth loan at the rate date, which represents the amount of loan granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as any reduction, forgiveness, rebate and discount granted. In any case, the amount subject to classification must not include uncollected accrued interest recognized in memorandum accounts on the balance sheet for loans classified within non-performing portfolio.
$Authorized\ Credit\ Line$	The maximum authorized amount of the credit line at the classification date.

The Group may recognize the security interests in real property, or personal or credit-derived collateral in the estimate of the LGD, with the aim of decreasing the reserves derived from the portfolio classification, according to the Regulation.

Acceptable collateral may be financial and nonfinancial. Likewise, collateral is recognized only if it complies with the requirements established by the Commission in the Banking Regulation.

ii) Portfolio of states and their municipalities *(governments)*-

For rating states and municipalities, the Group considers the PD, LGD and EAD factors, pursuant to the Regulations, as follows:

The amount of allowance for loan losses of each loan shall be the result of using the following equation:

$$R_i = PD_i \ x \ LGD_i \ x \ EAD_i$$

Where:

R_i = The amount of the allowance for loan losses to be created for the nth loan.
PD_i = Probability of Default of the nth loan.
LGD_i = Loss Given Default of the nth loan.
EAD_i = Exposure At Default of the nth loan.

The PI_i will be determined according to the following equation:

$$PD_i = \frac{1}{1 + \mathrm{e}^{-(500 - \text{Total Credit Score}_1)\ \mathrm{x}\ \frac{\mathrm{Ln}(2)}{40}}}$$

For such purposes:

The total credit score of each borrower is calculated by applying the following equation:

$$Total\ Credit\ Score_i = a\ x\ (QCSt_i) + (1 - \alpha)\ x\ (QCSl_i)$$

Where:

$QCSt_i$= Quantitative Credit Score = IA + IB + IC
$QCSl_i$= Qualitative Credit Score = IIA + IIB
a= 80%
IA= Average days in arrears with banking institutions (IFB) + % of on time payments with IFB + % of on time payments with non-bank financial institutions.
IB= Number of ratings agencies recognized in accordance with the provisions which provide a classification to the State or Municipality.
IC= Total debt to eligible participations plus debt service to adjusted total revenues plus short-term debt to total debt plus total revenues to current expense plus investment to total revenues plus proprietary revenues to total revenues.
IIA= Local unemployment rate plus presence of financial services of regulated entities.

IIB= Contingent obligations derived from retirement benefits to adjusted total revenues Plus operating balance sheet to local Gross Domestic Product Plus level and efficiency of collections Plus robustness and flexibility of the regulatory and institutional framework for budget approval and execution Plus robustness and flexibility of the regulatory and institutional framework for approval and imposition of local taxes Plus transparency in public finances and public debt Plus issuance of outstanding debt in the stock market.

Unsecured loans-

The LGD_i of the loans granted to States or Municipalities which are not covered by security interests in real property, or personal or credit-derived collateral will be:

a. 45%, for Preferred Positions.

b. 100%, for Subordinated Positions or for loans which are 18 months or more in arrears for the amount due and payable under the original terms of the loan.

The EAD_i will be determined using the following equation:

$$EAD_i = S_i * Max\left\{\left(\frac{S_i}{Authorized\ Credit\ Line}\right)^{-0.5794}, 100\%\right\}$$

Where:

S_i= The outstanding balance of the nth loan at the classification date, which represents the amount of loan granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as any reduction, forgiveness, rebate and discount granted.

In any case, the amount subject to the classification must not include uncollected accrued interest recognized in memorandum accounts on the balance sheet for loans classified within non-performing portfolio.

$Authorized\ Credit\ Line$= The maximum authorized amount of the credit line at the classification date.

The Group may recognize the security interests in real property, or personal or credit-derived collateral in the estimation of the LGD of the credits, for the purpose of reducing the allowance for loan losses derived from the portfolio classification, according to the Banking Regulations.

Admissible security interests in real property may be financial and nonfinancial. Furthermore, only those security interests in real property which comply with the requirements determined by the Commission are recognized.

The allowances for loan losses from the commercial loan portfolio created by the Institution as a result of the rating of each loan are classified in accordance with the percentages shown in next page.

Risk Level	Percentages Ranges Loss Reserves
A-1	0% to 0.90%
A-2	0.901% to 1.50%
B-1	1.501% to 2.00%
B-2	2.001% to 2.50%
B-3	2.501% to 5.00%
C-1	5.001% to 10.00%
C-2	10.001% to 15.50%
D	15.501% to 45.00%
E	More than 45.00%

iii) Residential mortgage loan portfolio -

Pursuant to official communication 121-1/1813/2018 dated November 16, 2018, the Commission approved the Group to apply prospectively the internal measurement models for the determination of the mortgage loan portfolio allowance for loan losses under an advanced approach.

Additionally, pursuant to official communication 121-1/074/2020 dated August 14, 2020, the Commission approved the update of the parameters considered for such model, with information up to 2018, parameters that have been applied by the Group as of August 2020 for the residential mortgage portfolio groups.

For rating mortgage loan portfolio, the Group considers an expected loss model for the next 12 months according to the following:

– PD = it is estimated based on scores allocated, considering the admission tool, credit behavior or number of defaults (scoring model), whether the loan is refinanced or not, based on the loan aging and the type of portfolio.
– LGD = it is estimated through the cash flows discount of delinquent exposures recovered at different times, estimated to be recovered, adjusted for the guarantee, the product, and period of time of non-compliance by the borrower.

– EAD - it is determined considering the principal loan balance at the end of each month.

The allowance for mortgage loan losses established by the Group following this credit rating process is classified according to the following risk level and percentages:

Level of risk	Allowance Percentage Range for Loan Losses		
A-1	0%	to	0.50%
A-2	0.501%	to	0.75%
B-1	0.751%	to	1.00%
B-2	1.001%	to	1.50%
B-3	1.501%	to	2.00%
C-1	2.001%	to	5.00%
C-2	5.001%	to	10.00%
D	10.001%	to	40.00%
E	40.001%	to	100.00%

iv) Non-revolving consumer portfolio-

Pursuant to Resolution issued by the Commission on January 6, 2017, the Group determines reserves under this methodology, which considers PD, LGD and EAD factors, as described below:

The amount of the allowance for loan losses of each loan shall be the result of applying the formula described as follows:

$$R_i = PD_i^x \ x \ LGD_i^x \ x \ EAD_i^x$$

Where:

R_i= The amount of the allowance for loan losses to be set up for the nth loan.
PD_i^x = Probability of default of the nth loan, classified as ABCD (B), automobile (A), payroll (N), personal (P), other (O).
LGD_i^x = Loss Given Default of the nth loan, classified as ABCD (B), automobile (A), payroll (N), personal (P), other (O).
EAD_i^x = Exposure to Default of the nth loan.
X = Super index that indicates the loan type corresponding to ABCD (B), automobile (A), payroll (N), personal (P), other (O).

For rating non-revolving consumer portfolio, the Group considers a loss model according to the following:

– PD = it is determined based on the loan type classification (B, A, N, P and O), depending on the delays, incorporating in their determination risk coefficients with specific values established in the Regulations for each loan type, borrower's payment behavior variables within the Group and other entities of the Mexican Financial System, mainly.

– LGD = it is determined based on the loan type classification (B, A, N, P and O), depending on the delays, incorporating in their determination LGD percentages in the observed delays at the rating date.

– EAD = corresponds to the principal and interest balance of each non-revolving consumer loan upon the portfolio rating.

Allowance for consumer loan losses which, does not include credit card transactions, set up by the Group as a result of the loan rating, are classified according to the risk degrees and percentages shown as follows:

Level of risk	Allowance Percentage Range for Loan Losses		
A-1	0%	to	2.00%
A-2	2.01%	to	3.00%
B-1	3.01%	to	4.00%
B-2	4.01%	to	5.00%
B-3	5.01%	to	6.00%
C-1	6.01%	to	8.00%
C-2	8.01%	to	15.00%
D	15.01%	to	35.00%
E	35.01%	to	100.00%

v) Consumer credit card loan portfolio-

The Commission approved the Group's request to apply an internal allowance for loan losses credit card rating model with advanced approach per Document 111-1/69930/2009 on June 22, 2009.Also, by official communication 121-1/1065/2019 dated June 17, 2019, the Commission approved the update of the parameters considered by said model such as the use of historical information until 2017, parameters that have been applied by the Institution as of July 2019.

Finally, pursuant to official communication 121-1/095/2020 dated October 15, 2020, the Commission approved the update of the parameters considered for such model, with historical information up to 2018, parameters that have been applied by the Institution from October 2020.

For rating its revolving consumer portfolio, the Institution considers an expected loss model for the next 12 months according to the provisions below:

– PD = it is estimated based on scores allocated, considering the admission tool or credit behavior (scoring model), based on the loan age and the type of portfolio.

– LGD = it is estimated through the cash flows discount of delinquent exposures recovered at different times, estimated to be recovered, adjusted for the guarantee and period of time of noncompliance by the borrower.

– EAD - this variable is determined considering principal loan balance at the end of each month, plus a percentage on the undrawn balance of the loan.

The allowance for credit card losses created by the Group following this credit rating process is classified according to the following risk level and percentages.

Level of risk	Allowance Percentage Range for Loan Losses		
A-1	0%	to	3.00%
A-2	3.01%	to	5.00%
B-1	5.01%	to	6.50%
B-2	6.51%	to	8.00%
B-3	8.01%	to	10.00%
C-1	10.01%	to	15.00%
C-2	15.01%	to	35.00%
D	35.01%	to	75.00%
E	More than 75.01%		

vi) Restructuring and renewal processes-

A restructuring process is a transaction derived from any of the following situations, as described below:

a) The extension of credit enhancements given for the loan in question, or

b) The modification of original credit or payment scheme conditions, which includes those mentioned in the next page.

– The modification of the interest rate established for the remainder of the loan period;

– The change of currency or account unit, or

– The concession of a grace period regarding the payment obligations detailed in the original credit terms, unless this concession is granted after the originally-agreed period, in which case it is considered as a renewal.

Restructuring transactions do not include those which, at the restructuring date, indicate payment compliance for the total amount due for principal and interest and which only modify one or more of the following original credit conditions:

Guarantees: only when they imply the extension or substitution of credit guarantees for others of higher quality.

Interest rate: when the agreed interest rate improves.

Currency: provided the respective rate is applied to the new currency.

Payment date: only if the change does not mean exceeding or modifying payment periodicity. Modifying the payment date must not permit nonpayment in any given period.

A renewal is a transaction which extends the loan duration at the maturity date or when the credit is paid at any time by using the proceeds generated by another loan contracted with the same entity in which one of the parties is the same debtor or another individual or entity with equity shareholding relationships thereby constituting a joint risk. A loan is not considered to be renewed when disbursements are made during the term of a pre-established credit line.

If a restructuring or renewal process is used to consolidate different loans granted to the same borrower in a single loan, the treatment applied to the total debt balance resulting from this restructuring or renewal process reflects the rating given to the worst rated among the component loans.

Current loans other than those with a single principal payment and the payment of interest accrued periodically or at maturity, which are restructured or renewed before at least 80% of the original credit period has elapsed are only considered as current when the borrower has a) settled all accrued interest, and b) paid the principal of the original loan amount which was due at the renewal or restructuring date.

If all the conditions described in the preceding paragraph are not fulfilled, loans are classified as non-performing from their restructuring or renewal date and until evidence of sustained payment is obtained.

Performing loans other than those involving a single principal payment and the payment of interest periodically or at maturity, which are restructured or renewed during the final 20% of the original credit period are only considered as performing when the borrower has a) settled all accrued interest; b) paid the original loan amount due at the loan renewal or restructuring date and, c) paid 60% of the original loan amount.

If all the conditions described in the preceding paragraph are not fulfilled, loans are classified as non-performing from their restructuring or renewal date and until evidence of sustained payment is obtained.

Loans involving a single principal payment, and the payment of interest periodically or at maturity and which are restructured during the credit period or renewed at any time are classified as non-performing portfolio until evidence of sustained payment is obtained.

Loans which are initially classified as revolving and which are restructured or renewed at any time are only considered as performing when the borrower has settled all accrued interest, the loan has no overdue billing periods and the elements needed to verify the borrower's capacity to pay are available, ergo, it is highly likely that the borrower will settle the outstanding payment.

Deductions, forgiveness, bonuses and discounts, therefore, the fully or partially forgiven amount of the loan repayment, are recorded with a debit to the allowance for loan losses. In the event that the amount thereof exceeds the balance of the estimate associated with the loan, estimates are previously recorded up to the amount of the difference.

vii) Write-offs, eliminations (financial write-offs) and loan portfolio recoveries-

The Institution periodically evaluates whether a past due loan should remain on the balance sheet, be eliminated, or written off. Write-offs and eliminations are made by writing off the unpaid balance against the allowance for loan losses. When the unpaid balance exceeds the associated estimate, before write-off, the missing amount of the estimate is increased.

In the elimination, past due loans that are provisioned at 100% may be derecognized, even when they meet, after the date of their removal from the balance, the conditions to be written off.

Any recovery derived from loans previously written off or eliminated pursuant to the Regulations shall be recognized in the results of the year results under "Allowance for loan losses".

When the balance of the allowance for loan losses has exceeded the amount required pursuant to the Regulations, the differential must be canceled in the period in which said changes occur against the results of the year, affecting the same item that originated it, that is, the allowance for loan losses.

(m) Securitization with transfer of ownership-

By securitizing the mortgage loan portfolio with transfer of ownership, the Group (the "Transferor") transfers the financial assets through a securitization vehicle (the "Trust"), to enable the latter to issue securities through an intermediary (the "Institution"), for placement among retail investors, which represent the right to the returns or the proceeds generated from the securitized financial asset, and as consideration the Transferor receives cash and a certification granting it the right to the remaining flows from the Trust after payment of the certificates to their holders.

On December 17, 2007, the Commission authorized the Group, through Document 153/1850110/2007, registered in the National Securities Register of the Share Certificate Issuance Program up to the amount of $20,000 or its equivalent in UDIs (for its acronym in Spanish "UDI" Unidades de Inversión) with an effective term of five years computed as of the authorization date; such program is revolving.

The Group recognized the securitized transactions performed during 2009 in accordance with the accounting criteria issued by the Commission in the same year, regarding C-1 "Financial Asset recognition and derecognition," C-2 "Securitized transactions" and C-5 "Consolidation of special-purpose entities." After applying these criteria, the Group derecognized the securitized assets held by the trusts, which were subsequently consolidated on the balance sheet of the Group. Securitizations performed prior to 2009 are not consolidated, based on the treatment established by the Commission, applicable as of that date.

The benefit valuation methodology applied to the securitized transaction residual is detailed below:

- The Group has tools to measure and quantify the impact of securitized transactions on the consolidated balance sheet and statement of income based on the cost of funding, release of capital, reserves and liquidity levels when structuring issuances and during the life of each.

- The valuation system measures the follow-up of certificate performance and the subordinated portions recorded by the Institution and, if applicable, it also values the bond position to consider its possible sale on a secondary market. The valuation model is used to calculate the Institution's constant historical prepayment rate computation, the mortality rate, current credit percentage, interest rate, issuance amount and value of guarantees with respect to the loan guarantee, among other items.

Notwithstanding the foregoing, as of December 31, 2019, the Group did not recognize the valuation of benefits on the remaining securitization transactions of trust 847, resulting from the application of the methodology explained above, recognizing only the amortization of the value of the confirmed cash flows received from said trust, which was held at nominal cost. During 2020, trusts 847 and 989 were early terminated, and during 2019, trusts 711 and 752 were early terminated.

The characteristics of securitization contracts are detailed in Note 13.

(n) Insurance premium receivable-

Premiums receivables represent balances of premiums which age is lower than the agreed term or than 45 days, according to the provisions of the CNSF. If said age is exceeded, they are written-off against net income.

(o) Other receivable, net-

Balances of sundry debtors that are not settled within 90 or 60 days following their initial recognition, depending on whether balances are identified or not, are reserved with a charge to results of the year, regardless of the probability of recovery, except for the recoverable taxes and settlement accounts.

(p) Net foreclosed assets or received through payment in kind-

Assets that are foreclosed or received through payment in kind are recorded at the lower of cost or fair value, less the direct and incremental costs and expenses incurred when they were awarded.

Property acquired through legal foreclosure is recognized on the date on which the foreclosure ruling is issued.

Property received as payment is recorded on the date on which the in-kind payment document is executed or when the delivery or transfer of ownership is formalized documented.

On the recording date of the foreclosed assets or assets received as payment in kind, the value of the asset which originated the foreclosure, as well as its respective reserve, must be canceled from the balance sheet, or the portion involving accrued or overdue payments settled through the partial payments in accordance to the Banking Regulations.

If the value of the asset, or the past due accrued amortizations, which originated the foreclosure, net of reserves, exceeds the value of the foreclosed assets, the difference will be recognized in the year results under "Other operating income (expenses)" as an expense.

When the value of the asset that originated the foreclosure, net of reserves, is less than the value of the foreclosed assets, the value of the latter must be adjusted to the net value of the asset.

Upon sale of the foreclosed property, spread between the sales price and the carrying value of the awarded property, net of allowances, must be recorded directly in earnings for the year under “Other operating income (expenses)”.

Foreclosed property is valued according to the type of property in question, recording an allowance for awarded property against earnings for the year under heading “Other operating income (expenses)”.

Considering the foregoing, and in compliance with the Banking Regulations, the determination of the allowance for personal property or real property foreclosed or received in payment over a period of time, is computed based on the tables shown below, depending on the type of property in question.

Allowance for personal property

Time elapsed as of the repossession or Payment-in-kind (months)	Allowance percentage
Up to6	0%
More than 6 and up to12	10%
More than12 and up to 18	20%
More than18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%

Allowance for real estate property

Time elapsed as of the repossession or Payment-in-kind (months)	Allowance percentage
Up to 12	0%
More than 6 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

(q) Property, plant and equipment, net-

Property, plant and equipment, net is recorded at acquisition cost. Assets acquired prior to December 31, 2007 were restated by applying factors derived from UDI up to that date. The related depreciation and amortization are recorded by applying a given percentage based on the estimated useful life of such assets to the cost restated to that date.

Depreciation is determined based on the cost or the cost restated until 2007 as appropriate, using the straight-line method as of the month following of the acquisition date, applying the rates detailed in the next page.

Real estate	2.5%
Construction	1.3%
Construction components:	
Elevators	3.3%
Power plants	2.8%
Pipelines	2.8%
Air conditioners	2.8%
Computer equipment	25.0%
ATMs	12.5%
Furniture and equipment	10.0%
Vehicles	25.0%
Security equipment	10.0%

The estimated useful lives, residual value and depreciation method of construction and its components, are reviewed at the end of each year, and the effect of any change in estimates is recognized initially recorded on a prospective basis.

Maintenance and minor repair expenses are recognized in results of the year when they are incurred.

(r) Impairment of long-lived assets in use-

The Group tests the net carrying value of long-live assets in order to determine the existence of impairment indicators that such value exceeds its recovery value. The recovery value represents the potential amount of net income that it is reasonably expected to be obtained as a consequence of the use or realization of such assets.

If it is determined that net carrying value exceeds recovery value, the Group records the required allowances. When it is intended to sell the assets, these are recorded in the consolidated financial statements at the lower of net carrying value or realizable value. The assets and liabilities of a group classified as available for sale are shown separately in the consolidated balance sheet.

(s) Equity investments-

Are represented by those equity investments made by the Group in entities over which it has significant influence but lacks control and are initially recorded at acquisition cost and subsequently valued by the equity method. The dividends received are decreased from the equity investment.

Furthermore, there are other equity investments which are recorded at acquisition cost and the dividends received from these investments are recognized in results of the year, except when they refer to profits from periods before the acquisition, in which case they are recorded as a reduction to the equity investment.

(t) Goodwill-

Represents the excess of the purchase price over the carrying value of a subsidiary company’s shares at the acquisition date and it is recognized in the “Other assets” caption; the amount of goodwill is annually assessed for impairment following the accounting criteria C-15 “Impairment in the value of long-lived assets and their disposal.”

(u) Income tax (IT)-

IT payable for the year are determined in conformity with the tax regulations in effect.

Deferred IT is accounted for under the asset and liability method.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for operating loss carry forwards and other recoverable tax credits. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized on the statement of income in the period that includes the enactment date.

As of the 2020 fiscal year, the improvements to FRS D-4 establish the bases for recognizing uncertain tax treatments in both accrued and deferred income taxes and include standards for the recognition of income taxes generated by a distribution of dividends. The adoption of this improvement did not create important changes in the Group's accompanying consolidated financial statements.

(v) Other Assets-Deferred charges, prepayments and intangibles-

It includes deferred charges for costs and expenses associated with the making of the loan, expenses for issuing securities and other deferred charges. It also includes advance payments for interest, commissions, sales and others, as well as provisional tax payments.

Software, computer developments and intangible assets are originally recorded at value disbursed and the amortization of those definite useful life is calculated by the straight-line method at a rate of 20%.

(w) Deposits funding-

Deposits funding comprises demand and time deposits from the general public, as well as those obtained in money market transactions, negotiable instruments issued and the global deposit account without transactions, which are integrated as described below:

a. Demand deposits. Include checking accounts, savings accounts, and checking account deposits, among others.

b. Time deposits. Include, among others, certificates of deposit settled on pre-determined days, bank acceptances and promissory notes with return payable at maturity collected from the general public and through money market transactions. Money market transactions are referred to time deposits held with other financial institutions, as well as treasuries of companies and government entities.

c. Debt securities issued. Made up of, among others, bank bonds and stock certificates.

d. Global deposit account without transactions. Includes the principal and interest of the deposit-taking instruments that do not have a maturity date, or that having a maturity date are automatically renewed, as well as past due and unclaimed transfers or investments.

If in the course of three years from when the funds are held in the global deposit account without transactions, the amount of which does not exceed, per account, the equivalent of 300 units of measurement (for its acronym in Spanish "UMAS"), they will be forwarded to public welfare, the Institution will be required to report the funds corresponding to public welfare within a maximum period of fifteen days from December 31 of the year in which the aforementioned event occurs.

Traditional deposit-taking interests are recognized in the consolidated income statement as they are accrued under "Interest expense."

Issuance expenses, as well as the discount or premium in the placement, are recognized as a deferred charge or credit, as the case may be, which is amortized in results as it accrues as expenses or interest income, as appropriate, taking into consideration the term of the instrument that gave rise to it in proportion to the maturity of the instruments.

(x) Bank and other borrowings-

Bank and other borrowings comprise loans from domestic and foreign banks. Interest is recognized on an accrual basis under the caption “Interest expenses.”

(y) Employee benefits-

The labor obligations derived from the post-employment benefits that the Institution has recognized correspond to the personnel whose retirement began before January 1, 2007, date from which the Group ceased to have employees except for the General Director, who is subject to the obligations for defined benefit plans for retired personnel.

The Group’s net obligation relating to defined benefit pension plans, seniority premiums, medical expenses, benefits upon death, sports club benefits and post-employment benefits, are calculated on a separate basis for each plan, estimating the amount of the future benefits brought to present value earned by active employees and retirees in previous years, deducting the fair value of the plan assets from such amount.

Calculation of the obligation for the defined benefit plans is performed on an annual basis by actuaries, using the projected unit credit method. When the calculation results in a possible asset for the Group, the recognized asset is limited to the present value of the economic benefits available in the form of future refunds of the plan or any curtailment in future contributions thereto. To calculate the present value of the economic benefits, any minimum financing requirement must be taken into consideration.

The amendments to the plans that affect the cost for services provided are recognized in earnings immediately in the year where said amendment occurs, without the possibility for deferral in subsequent years. Furthermore, the effects of any death events or obligations curtailment for the period, which significantly reduce the cost of future services and/or significantly reduce the population subject to benefits, respectively, are recognized in earnings for the period.

The Group determines the net interest expense (income) on the net liability (asset) for defined benefits of the year, by multiplying the discount rate used to measure the defined benefit obligation by the net liability (asset) defined at the beginning of the reporting annual period, considering changes in the net liability (asset) from the defined benefits during the period as result of the estimations of the contributions and benefit payments. Net interest and labor cost are recognized as part of the cost of the year as administrative expenses.

Any remeasurement resulting from differences between the projected and actual actuarial assumptions by the end of the period are recognized in the period where they are incurred as part of Other Comprehensive Income (OCI) within stockholders’ equity.

(z) Technical reserves-

The Group creates and measures technical reserves in accordance with the terms and provisions established by the Law of Insurance and Bonding Institutions and with the general rules issued by the CNSF in Title 5 of the Insurance regulations.

The technical reserves are established and measured in relation to all insurance and reinsurance obligations that the Group has assumed before the insured and beneficiaries of insurance and reinsurance contracts, the administration expenses, as well as the acquisition cost assumed in relation thereto.

To create and assess technical reserves, actuarial methods based on the application of actuarial practice standards indicated by the CNSF through general regulations are used, considering the information available in the financial markets, as well as the information available on technical insurance and reinsurance risks. The valuation of these reserves is assessed and validated by an independent actuary registered with the CNSF.

Regarding the technical reserves related to catastrophic risks and other reserves that the CNSF determined in accordance with the Law of Insurance and Bonding Institutions, the Group used the actuarial methods of creation and measurement established by the CNSF through general regulations.

The most significant aspects of their calculation and accounting are as follows:

i) Reserve for current risks-

The Group registered with the CNSF the technical notes and the actuarial methods used for creating and measuring the current risk reserve.

The purpose of this reserve is to cover the expected value of future obligations (best estimate), from the payment of claims, benefits, guaranteed securities, dividends, acquisition and administration expenses, as well as any other future obligation derived from the insurance contracts, plus a risk margin.

The best estimate will be equal to the expected value of the future cash flows, considering income and expenses, of obligations, understood as the weighted average by probability of these cash flows, considering the time value of money based on the curves of market-risk free interest rate for each currency or monetary unit provided by the independent price vendors, as of the valuation date.

The hypothesis and procedures with which the future cash flows of obligations are determined, based on which the best estimate will be obtained, were defined by the Group in the method recorded for the calculation of the best estimate. For calculation purposes of the future cash flows of revenues, the premiums that upon valuation are overdue and outstanding are not considered, nor are the fractional payments accounted for in “Insurance premium receivable” in the consolidated balance sheet.

Special mathematical reserve for pensions has the purpose of setting aside any required resources for the Group to face potential increases in the survival indexes of insured population.

Reserve for pension additional benefits has the purpose of setting aside any required resources for the Group to face future rents of additional benefits offered to its pensioners. The Group reported to the CNSF the technical notes and actuarial methods used to set up and value this reserve.

Multiannual insurance-

In the case of multiannual policies, the reserve for current risks is the best estimate of the future obligations for the year of validity concerned, plus the gross premium corresponding to future cumulative annuities including the expected return of such annuities, during the validity of the policy and the risk margin. The acquisition cost shall be deduced from the premiums corresponding to future annuities and, if applicable, for accounting effects, shall be recorded at the date of issuance separately from the reserve.

The Group considers as multiannual policies, those insurance contracts whose lifetime is more than one year and except those long-term life insurance or insurance with contingent future premiums and their devolution is not expected at the time of extinction of the risk.

Catastrophic risk insurance-

The Group determines the balance of reserve for current risks of the coverage for earthquake, hurricane and other hydrometeorology risks, based on the non-accrued annual risk premium, applying the technical basis included in the Insurance regulations.

In the case of policies that cover risks which, due to their characteristics, cannot be valued on the basis of these technical criteria, mainly reinsurance taken abroad or covered goods located overseas, the reserve for current risks is calculated as the non-accrued part of the retained risk premium, which is calculated as 35% of the issued premiums of each of the policies effective at the date of valuation.

Risk margin-

This is calculated by determining the net cost of capital corresponding to the Own Admissible Funds required to support the Solvency Capital Requirement (SCR), necessary to meet the Group's insurance and reinsurance obligations for the duration of the covered risk period. For valuation purposes of the current risk reserve, the SCR of closing of the month immediately preceding valuation is used. If there are relevant increases or decreases in the amount of the Group's obligations as of the report date, the Group makes adjustments to this risk margin, which allows to recognize the increase or decrease the margin may have from the situations mentioned. In these cases, the Insurance Commission is informed of the adjustment made and the procedures used to make this adjustment.

Risk margin is determined for each insurance line and type, according to the term and currency considered in the calculation of the best estimate of the corresponding retained insurance obligation.

The net capital cost rate used to calculate the risk margin is 10%, equivalent to the additional interest rate, in relation to the market-risk free interest rate that an insurance institution would require to cover the capital cost demanded to maintain the amount of Own Admissible Funds supporting the corresponding SCR.

ii) Outstanding claims provision-

The creation, increase, valuation and recording of the outstanding claims provision is made through estimating obligations using the actuarial methods that the Group has registered for such purposes with the CNSF.

The purpose of this provision is to cover the expected value of accidents, benefits, guaranteed values or dividends, once the contingency provided for in the insurance contract occurs, plus a risk margin.

The amount of the outstanding claims provision will be equal to the sum of the best estimate and of a risk margin, which are calculated separately and in terms of Title 5 of the Insurance regulations.

This reserve includes the following:

Outstanding claims provision for claims and other obligations of known amount-

These are the outstanding obligations at closing of the period from claims reported, past due endowments, past due rents, guaranteed securities and dividends accrued, among others, whose amount payable is determined upon valuation and is not likely to have adjustments in the future, the best estimate, for purposes of establishing this reserve is the amount corresponding to each one of the obligations known upon valuation.

For a future obligation payable in installments, the current value of future discounted payment flows is estimated using the market-risk free interest rate curves for each currency or monetary unit, plus the risk margin calculated according to the provisions in force.

In case of reinsurance ceded operations, the corresponding recovery is recorded simultaneously.

Outstanding claims provision for claims incurred but not reported and adjustment expenses reserve attributable to the claim–

These are the obligations that arise from claims that having occurred as of the valuation date, have not yet been reported or have not been completely reported, as well as the adjustment, salvage, and recovery expenses. The reserve upon valuation is determined as the best estimate of future obligations brought to the present value using discount rates corresponding to the market-risk free interest rate curves for each currency or monetary unit, plus the risk margin calculated according to the provisions in force. In case of reinsurance ceded operations, the corresponding recovery is recorded simultaneously.

For purposes of calculating the reserve, a claim is defined as have not been completely reported, when having occurred on dates prior to valuation of such accident, future claims or adjustments in addition to the estimates initially made, may derive.

Risk margin-

This is calculated by determining the net cost of capital corresponding to the Own Admissible Funds required to support the Solvency Capital Requirement (SCR), necessary to meet the Group's insurance and reinsurance obligations for the duration of the covered risk period. For purposes of valuation of the outstanding obligation risk reserve, the SCR valuation of the immediately preceding month is used. In case of relevant increases or decreases in the amount of the Group's obligations as of the report date, the Group makes adjustments to this risk margin, which allows it to recognize the increase or decrease on the margin that may have from the mentioned situations. In these cases, the CNSF is informed of the adjustment made and the procedures performed to make this adjustment. The risk margin is determined by each brand and type of insurance, according to the term and currency considered in the calculation of the best estimate of the corresponding insurance obligation.

The net capital cost rate used to calculate the risk margin is 10%, equivalent to the additional interest rate, in relation to the market-risk free interest rate that an insurance institution would require to cover the capital cost demanded to maintain the amount of Own Admissible Funds supporting the corresponding SCR.

iii) Catastrophic risk insurance-

Earthquake and/or volcanic eruption coverage-

The purpose of this reserve is to cover the maximum likely loss of the Group in connection with the occurrence of catastrophic casualties in the underwritten obligations related to earthquake and volcanic eruption events. The reserve is cumulative and may only be affected in the event of casualties, and under certain situations included in the Law of Insurance and Bonding Institutions, with the CNSF prior approval. Increases to the reserve require the release of the current risk reserve for the earthquake insurance line and the capitalization of financial income. The balance of this reserve has a limit, determined by the technical procedure established in the rules issued by the CNSF.

Hurricane and other hydrometeorology risks-

The purpose of this reserve is to cover the maximum likely loss of the Group in connection with the occurrence of catastrophic claims in the underwritten obligations related to hurricane and other hydrometeorology risk insurance. The reserve is cumulative and may only be affected in the event of claims, and under certain situations included in the Law of Insurance and Bonding Institutions, with the CNSF prior approval. Increases to the reserve require the release of the current risk reserve for the hurricane and other hydrometeorology risks insurance line and the capitalization of financial income. The balance of this reserve has a limit, determined by the technical procedure established in the rules issued by the CNSF.

iv) Reserve for contractual obligations for pensions-

This reserve comprises the annuities to pensioners or beneficiaries, which claim period has expired but they have not been claimed and there is no evidence of their death or lost eligibility, respectively.

v) Contingency reserve-

The funds of this reserve are intended for facing an adverse deviation in the obligations derived from the demographic hypotheses used in determining the constitutive amounts, which will reflect into excess in obligations as a result of a change in the mortality rate provided for by the adopted demographic table.

vii) Reserve for investment fluctuations-

Its purpose is assisting the insurance institutions faced with possible variants in their investment yields. It is comprised by a portion of the financial yield derived from the spread between the investment yields of the insurance institutions and the minimum yields credited to their technical reserves, without the balance exceeding the 50% of the gross solvency requirement, determined in provision 5.11.6 of the Insurance regulations.

(aa) Reinsurance-

Current

Transactions arising from reinsurance contracts, both ceded and assumed entered into by the Group, are shown under the heading “Accounts receivable from reinsurers and bonding reinsurers” in the consolidated balance sheet; for presentation purposes, the credit balances by reinsurers company are reclassified to the corresponding heading under liabilities.

Reinsurance assumed

Transaction arising from reinsurance assumed are accounted for depending on the statements of account received from cedants, which in general are prepared monthly, an aspect that causes the deferral of a month in the recording of premiums, losses, commissions, etc.

Ceded reinsurance

The Group limits the amount of its liability for risks assumed through the distribution with reinsurance companies, through automatic and facultative contracts, ceding to such reinsurance a portion of the premium.

The Group has a limited retention capacity in all lines of insurance and contracts stop-loss coverage, that basically cover life, accidents and casualty transactions.

Reinsurance recoverable amounts

The Group records the participation of reinsurers in the current risk reserves and for outstanding claims for incurred but not reported losses and adjustment expenses allocated to the loss, as well as the expected amount of future obligations arising from reported losses.

The Group's management determines the estimate of the recoverable amounts for the participation of the reinsurers in the reserves mentioned in the preceding paragraph, considering the temporary differences between reinsurance recoveries and direct payments and the likelihood of recovery, as well as the expected loss from noncompliance of the counterparty. Methodologies for calculation of this estimate are registered with the CNSF and the effect is recognized in the consolidated income statement for the year.

Pursuant to the CNSF regulations, recoverable amounts from reinsurance contracts with counterparties that do not have an authorized register, cannot cover the Investment Base and cannot be part of the Acceptable Own Funds.

(ab) Provisions-

They are recognized when there is a present obligation resulting from a past event, which is likely to result in an outflow of economic resources, and that can be estimated reasonably.

(ac) Foreign currency transactions-

Transactions denominated in foreign currency are recorded in the currency of the operation and valued at the exchange rate determined by the Central Bank. Monetary assets and liabilities denominated in foreign currency are valued in local currency at the exchange rate at the end of each period, issued by the Central Bank. The differences in changes incurred in relation to assets or liabilities contracted in foreign currency are recorded in the results of the year.

The result of currency trading comes from the difference between the exchange rates used to buy and / or sell currencies, including adjustment to the final position, valued at the exchange rate referred to in the previous paragraph.

(ad) *Net interest income* -

The Group's net interest income consists of the difference resulting from interest income and insurance premiums income less interest expense, net increase in technical reserves and loss ratio, claims and other contractual obligations, net.

Interest income-

Interest income comprises returns generated by the loan portfolio, depending on the terms established in agreements entered into with the borrowers at agreed upon interest rates, earned interest income in capital lease transactions, amortization of interest collected in advance, as well as interest from deposits held at financial entities, bank loans, margin accounts, investments in securities, repurchase agreements and securities lending, accrual of collected fees for loan origination, as well as dividends of net worth instruments considered as interest income and insurance premium revenues.

Interest earned on loans is included in earnings as it accrues. Interest on past-due portfolio is included in earnings until it is collected.

Commissions charged for loan origination are recorded as deferred revenues under “Deferred credits and prepayments”, and are amortized to earnings under “Interest income”, using the straight-line method over the life of the loan, except for those related to revolving loans, which are amortized over a 12-month period.

Interest expense-

Interest expense is comprised of the Group deposit’s premiums, discounts and interest, bank loans, repurchase agreements, securities loans, debentures, debt placement issuance expenses and discounts. The amortization of costs and expenses incurred to originate loans is included within interest expense.

Commissions charged and associated costs and expenses-

The commissions charged for restructuring or renewal of loans are added to the commissions that were initially originated as stated above, being recognized as a deferred loan that is amortized to using the straight-line method throughout the new term of the loan.

Commissions recognized after the initial loan origination, those incurred as part of the maintenance of such loans, or those collected for other reasons that the granting are recognized in results when they are incurred.

Incremental costs and expenses associated with the initial loan grant are recognized as a deferred charge and are amortized against results as “Interest expense” during the same accounting period in which income from collected commissions is recognized.

Any other costs or expenses, including those related to promotion, advertising, potential clients, management of existing loans (follow-up, control, recoveries, etc.) and other ancillary activities related to the establishment and monitoring of loan policies are recognized directly in results as incurred under the respective line item that corresponds to the nature of the cost or expense.

Costs and expenses associated with the issuance of credit cards are recognized as a deferred charge, which is amortized to results over a 12-month period under the respective line item that corresponds to the nature of such cost or expense.

On the cancellation date of a credit line, the remaining unamortized balance of commission fees collected for credit lines cancelled before the end of the 12-month period are recognized directly in results of the year under “Commissions and fee income.”

(ae) Salvage revenues-

Salvage revenues are recorded as an asset and a reduction in the costs of claims when they are known and are recorded at the estimated realization value.

(af) Memorandum accounts-

(i) Own operations

Memorandum accounts are used to record assets or commitments which do not form part of the Group's balance sheet because the related rights are not acquired or such commitments are not recognized as a liability of the entities until such eventualities occur, respectively:

– *Contingent assets and liabilities:*

Formal claims that may involve any responsibility for the Group.

– *Loan commitments:*

The balance represents the value of letters of credit granted by the Group and that are considered as irrevocable commercial loans not used by borrowers and authorized unused lines of credit.

The above items recorded in this account are subject to loan rating.

– *Assets in trust or under mandate:*

The Group records the transactions of assets or trusts in memorandum accounts according to the following:

- These represent the value of property received in trust, all information concerning the management of each being kept in separate accounts.

- Those that, due to their assets and liabilities, result from the transactions and whose recognition and valuation is carried out in accordance with the provisions of the specific Accounting Criteria applicable to the Group.

Losses incurred by the Group for liabilities incurred as a trustee are recognized in the results in the period in which they are known, regardless of the time in which any legal action is carried out for this purpose

The trust services unit maintains special accounting for each agreement in the trustee system, and records in them and in its own accounting the money and other assets, securities or rights entrusted to them, as well as increases or decreases, for products or expenses respectively, invariably the balances of the special accounts of each trust agreement match the balances of the memorandum accounts in which the Group recognizes the trust estate.

These assets in no event shall be assigned to other liabilities than those derived from the trust, or that that correspond to third parties in accordance with the Law.

When, due to the nature of the trusts created in the Group, there are assets or liabilities against or in favor of the Institution, these are recognized in the consolidated balance sheet, as appropriate.

The mandate is recorded at the goods stated value subject to the mandate agreements entered into by the Group.

Revenue recognition from management of trusts is based on accrual. Accrual of said revenue is suspended when the debt is 90 or more days past due and can be accrued again when the outstanding debt is paid in full.

As long as the income accrued from the management of trusts is suspended from accrual and not collected, control thereof is kept in memorandum accounts. In the event that such accrued income is collected, it is recognized directly in the results of the year.

– *Assets in custody, guarantee and under management:*

Cash and securities owned by the clients under custody, guarantee and management are reflected in the respective memorandum accounts and are valued based on the price delivered by the price vendor.

Securities under custody and management are deposited at S. D. Indeval, Institución para el Depósito de Valores, S. A. de C. V.

– *Collateral received by the entity:*

This balance represents the total amount of collateral received in repurchase transactions and securities loans, when the Group acts as the repurchasing party and borrower.

– *Collateral received and sold or given in guarantee by the entity:*

This balance represents the total collateral received and sold or given in guarantee when the Group acts as the repurchasing party and borrower.

– *Uncollected earned interest derived from non-performing portfolio:*

The interest earned is recorded in memorandum accounts once a loan is transferred to past due portfolio.

– *Other record accounts:*

As of December 31, 2020, and 2019, the other memorandum accounts present a balance of $3,592,498 and $3,490,345, respectively, which comprise mainly collaterals received by the Group, among others.

(ii) <u>Transactions on behalf of third parties:</u>

It is represented by cash deposits from clients, securities in custody and transactions entered into on behalf of clients. Cash is deposited at banks in accounts other than those owned by the Group. Valuation of assets in custody, related to securities or certificates that qualify as securities, is measured at fair value. For transactions on behalf of third parties, these are valued depending on the nature of the transaction, that is, investments in securities, repurchase agreements, securities lending and derivatives.

(ag) Contingencies-

Significant contingency-related obligations or losses are accounted for when materialization becomes likely and there are reasonable elements for quantification. In the absence of these reasonable elements, a disclosure is included on a qualitative basis in the notes to the financial statements. Contingent revenues, profits or assets are recorded when there is certainty about their realization.

(4) Cash and cash equivalents-

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

	2020	2019
Cash in hand	$ 59,969	52,786
Banks	128,986	43,929
Restricted cash:		
Foreign currency purchases [2]	103,790	66,623
Foreign currency sales [2]	(116,863)	(56,413)
Deposits at Central Bank [1]	33,936	40,304
Other restricted deposits	-	348
Other cash and cash equivalents	796	3,134
	210,614	150,711
Reclassification to liability for offset of foreign currency purchases and sales [2]	13,073	-
Total	$ 223,687	150,711

Banks include deposits in Mexican pesos and U.S. dollars, translated at the exchange rate published by the Central Bank of $19.9087 and $18.8642 pesos per one U.S. dollar, as of December 31, 2020 and 2019, respectively, and are comprised as follows:

	Mexican pesos		U.S. Dollars		Total	
	2020	2019	2020	2019	2020	2019
Deposits with Mexican banks.....	$ 468	146	-	-	468	146
Deposits with foreign banks	1,399	1,750	98,757	40,817	100,156	42,567
Central Bank	23,209	102	5,153	1,114	28,362	1,216
	$ 25,076	1,998	103,910	41,931	128,986	43,929

[1] As of December 31, 2020 and 2019 the deposits with Central Bank includes Institution's Monetary Regulation Deposits in Central Bank (for its acronym in Spanish "DRM"), which amount to $33,936 and $40,304, respectively. These Monetary Regulation Deposits will have an indefinite duration, for which Central Bank will provide timely notice of the date and the procedure for withdrawal of the respective balances. Interest on the deposit is payable every 28 days by applying the rate established in the Banking Regulations issued by Central Bank.

On April 1, 2020, circular 7/2020 was published in the Official Gazette of the Federation (DOF) regarding the amendments to Circular 9/2014 where it is stated that the Central Bank reduced the total amount of DRM through which it regulates the excess liquidity in the Money market, returning $9,036 to the Group.

On November 4, 2020, circular 42/2020 was published in the DOF where the Central Bank, in consideration of the applicable measures due to the COVID-19 pandemic, adjusted the operational aspects contemplated in the rules applicable to DRM, contained in Circular 9/2014, and regarding the reduction of the total amount of DRM that was implemented through Circular 7/2020, announced an increase in DRM, which the Institution increased by $2,708.

As of December 31, 2020 and 2019, the amount of accrued interest not collected from the DRM that was recognized amounted to $33 and $73, respectively.

On May 12, 2016 through Circular 9/2016, the Central Bank issued rules for the auction of Reportable Monetary Regulation Bonds (BREMS R), which indicate that these instruments can be settled with monetary regulation deposit (DRM) resources. The current Banking Regulations establish that the DRM may be comprised of cash, securities or both.

As of December 31, 2020, and 2019, the Institution holds BREMS R in the amount of $32,682 and $32,688, respectively, which form part of the DRM. These amounts are recorded as restricted under the heading of "Investments in securities" in the category of securities available-for-sale (notes 6(b) and 6(b.1)), this is as a consequence of the bond prospectus establishing that it must only be sold directly or through repurchase/resale transactions to the Central Bank, when determined by the latter through general regulations.

(2) As of December 31, 2020 and 2019, foreign currencies to be received and delivered in connection with purchases and sales, respectively, payable in 24 to 96 hours are as follows:

	Balance in foreign currency (millions)		Mexican peso equivalent	
	2020	2019	2020	2019
Foreign currency purchases to be received at 24, 48, 72 and 96 hours:				
USD	5,099	3,313	$101,518	62,499
EUR	114	195	2,272	4,124
Total			$103,790	66,623
Foreign currency sales to be settled at 24, 48, 72 and 96 hours:				
USD	(5,841)	(2,985)	$(116,293)	(56,313)
EUR	(22)	(4)	(429)	(75)
JPY	(7)	-	(141)	-
GBP	-	(1)	-	(25)
Total			$(116,863)	(56,413)
			(13,073)(*)	10,210

(*) Balance reclassified to liabilities after offsetting purchases and sales of foreign currency.

Upon recording foreign currencies to be delivered or received from sales and purchases under "Cash and cash equivalents", the clearing accounts of the counter value of these transactions are recorded in the consolidated balance sheet under" Other accounts receivable, net" and "Creditors on settlement of transactions", accordingly.

In accordance with the provisions in force for credit institutions, under cash and cash equivalents, it is states that in the event that the offsetting balance of foreign currency to be received with the foreign currency to be delivered, with term between 24 and 96 hours, shows a liability balance, it must be reclassified to "Sundry creditors and other accounts payable", so that as of December 31, 2020, the net liability balance of foreign currency to be received and delivered was reclassified for $13,073.

For the years ended December 31, 2020 and 2019, interest recognized in the year's results by Call Money transactions amounts to $48 and $165, with average return rates of 5.50% and 8.10%, respectively. As of December 31, 2020 and 2019, there are no Call Money transactions.

(5) Margin accounts-

As of December 31, 2020 and 2019, margin accounts consist of guarantees granted in cash for derivative financial transactions in organized markets of $32,261 and $18,329, respectively.

(6) Investment securities-

As of December 31, 2020 and 2019, investment securities were as follows:

a. Trading Securities

	2020				2019
Instrument	Acquisition cost	Accrued interest	Increase (decrease) valuation	Carrying amount	Carrying amount
Unrestricted:					
Equity shares, net	$ 616	–	31	647	10,552
American Depositary Receipts (ADRS)	15,184	–	188	15,372	1,269
Bank bonds	–	–	–	–	1
Sovereign debt Eurobonds	1,307	20	105	1,432	2,081
Fixed-rate government bonds	11,594	56	15	11,665	3,692
Promissory notes with returns settle at maturity (PRLV)	26	–	–	26	97
Federal Mexican Treasury Securities (CETES)	16,270	111	15	16,396	15,843
Federal Government Development Bonds (BONDESD)	4,490	6	(1)	4,495	2,084
Corporate commercial paper	–	–	–	–	129
Corporate Eurobonds	2,467	13	21	2,501	782
Securitization certificates	4,900	29	(18)	4,911	2,708
Exchangeable securitization certificates (CBICS)	-	-	-	-	771
Federal Government Development Bonds in UDIS (UDIBONOS)	3,208	3	34	3,245	2,669
Mexican Bank Saving Protection Bonds (BPAS)	12,371	115	11	12,497	7,068
Investment funds	77,612	-	742	78,354	72,844
Treasury notes	888	4	5	897	488
Total unrestricted securities carried forward	$ 150,933	357	1,148	152,438	123,078
Restricted securities:					
Collateral granted (a.1.)	238,179	2,384	686	241,249	254,450
Value date purchases (a.2.)	7,555	45	6	7,606	26,161
Value date sales (a.3.)	(14,603)	(113)	1	(14,715)	(30,523)
Total	$ 382,064	2,673	1,841	386,578	373,166

During 2020 and 2019, the Group recognized income of $1,221 and $801, respectively, on valuation from unrestricted securities (note 32).

Also, as of December 31, 2020 and 2019, the residual terms of these unrestricted investments in the next page.

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Instrument	2020 Less than 1 month	Between 1 and 3 months	More than 3 months	Without fixed term	Total acquisition cost
Unrestricted securities:					
Equity shares, net	$ –	–	–	616	616
ADRS	–	–	–	15,184	15,184
Sovereign debt Eurobonds	–	–	1,307	–	1,307
Fixed-rate government bonds	–	–	11,594	–	11,594
PRLV	26	–	–	–	26
CETES	2,848	6,551	6,871	–	16,270
BONDESD	–	–	4,490	–	4,490
Corporate Eurobonds	–	983	1,484	–	2,467
Securitization certificates	855	298	3,747	–	4,900
UDIBONOS	–	–	3,208	–	3,208
BPAS	–	5	12,366	–	12,371
Investment funds	–	–	–	77,612	77,612
Treasury notes	–	–	888	–	888
Total	$ 3,729	7,837	45,955	93,412	150,933

Instrument	2019 Less than 1 month	Between 1 and 3 months	More than 3 months	Without fixed term	Total acquisition cost
Unrestricted securities:					
Equity shares, net	$ –	–	–	10,481	10,481
ADRS	–	–	–	1,399	1,399
Bank bonds	–	–	1	–	1
Sovereign debt Eurobonds	–	–	1,984	–	1,984
Fixed-rate government bonds	–	–	3,667	–	3,667
PRLV	26	–	71	–	97
CETES	1,955	504	13,263	–	15,722
BONDESD	–	–	2,082	–	2,082
Corporate commercial paper	129	–	–	–	129
Corporate Eurobonds	–	–	766	–	766
Securitization certificates	583	8	2,178	–	2,769
CBICS	–	–	757	–	757
UDIBONOS	–	–	2,649	–	2,649
BPAS	112	–	6,793	–	6,905
Investment funds	–	–	–	69,309	69,309
Treasury notes	–	–	485	–	485
Total	$ 2,805	512	34,696	81,189	119,202

a.1. Collaterals granted as of December 31, 2020 and 2019 were comprised as follows:

	2020				2019
	Acquisition cost	Accrued interest	Increase (decrease) valuation	Carrying amount	Carrying amount
Collateral under securities lending:					
IPAB Bond	$ 20,133	283	48	20,464	11,800
Fixed-rate government bonds	29,388	600	142	30,130	16,930
BONDES	12,570	24	(9)	12,585	–
UDIBONOS	–	–	–	–	21,581
Securitization certificates	2	–	–	2	–
Total collateral under securities lending	62,093	907	181	63,181	50,311
Collateral under repurchase/resale agreements:					
Bank securitization certificates	776	8	5	789	3,776
Corporate commercial paper	–	–	–	–	497
Bank bonds	–	–	–	–	210
BONDESD	42,421	72	(11)	42,482	9,880
Fixed-rate government bonds	30,432	391	211	31,034	64,565
BPAS	56,347	669	85	57,101	64,725
CETES	19,193	–	34	19,227	42,534
UDIBONOS	2,950	7	19	2,976	1,863
CEBICS	18,111	300	137	18,548	16,089
Eurobonds	239	1	6	246	–
Securitization certificates	2,806	23	20	2,849	–
Total collateral under repurchase/resale agreements	173,275	1,471	506	175,252	204,139
Other collateral:					
BPAS	2,157	6	(1)	2,162	–
CETES	654	–	–	654	–
Total other collateral	2,811	6	(1)	2,816	–
Total restricted securities by collateral granted	$ 238,179	2,384	686	241,249	254,450

a.2. Value date purchases as of December 31, 2020 and 2019 were comprised as follows:

	2020				2019
Instrument	Acquisition cost	Accrued interest	Increase (decrease) valuation	Carrying amount	Carrying amount
Equity shares, net	$ 126	–	5	131	247
ADRS	99	–	–	99	154
Fixed-rate government bonds	5,437	33	–	5,470	7,047
BPAS	–	–	–	–	3,730
BONDESD	–	–	–	–	3,595
CETES	129	–	–	129	7,850
UDIBONOS	1,374	5	–	1,379	3,498
Securitization certificates	114	–	–	114	1
Corporate Eurobonds	–	–	–	–	39
Sovereign debt Eurobonds	276	7	1	284	–
Total	$ 7,555	45	6	7,606	26,161

a.3. Value date sales as of December 31, 2020 and 2019 were comprised as follows:

Instrument	2020 Acquisition cost	2020 Accrued interest	2020 (Decrease) valuation	2020 Carrying amount	2019 Carrying amount
Equity shares, net	$ (7))	–	–	(7)	(102)
ADRS	(59)	–	–	(59)	(41)
Sovereign debt Eurobonds	–	–	–	–	(2)
CETES	–	–	–	–	(15,743)
BPAS	(1,798)	(26)	(1)	(1,825)	–
Fixed-rate government bonds	(11,651)	(79)	1	(11,729)	(11,678)
Corporate Eurobonds	(27)	(1)	–	(28)	–
UDIBONOS	(757)	(2)	1	(758)	(2,957)
Securitization certificates	(304)	(5)	–	(309)	–
Total	$ (14,603)	(113)	1	(14,715)	(30,523)

During 2020 and 2019, the Group recognized losses on valuation of restricted securities coming from collaterals granted for $2,139 and profits for $1,621, respectively (note 32).

For the years ended December 31, 2020 and 2019, the returns associated with all the securities to be traded recorded in the income for the year amounted to $23,406 and $31,917, respectively (note 30).

b. Available-for-sale

Instrument	2020 Acquisition cost	2020 Accrued interest	2020 (Decrease) valuation	2020 Carrying amount	2019 Carrying amount
Unrestricted securities:					
Equity shares, net	$ 528	–	291	819	718
CETES	1,979	15	13	2,007	78
Sovereign debt Eurobonds	29,405	436	1,429	31,270	21,102
Corporate Eurobonds	5,615	156	188	5,959	7,227
Development bank Eurobonds	–	–	–	–	336
Fixed-rate government bonds	25,773	140	546	26,459	–
BONDES D	3,474	5	(1)	3,478	54,061
BPAS	17,182	227	21	17,430	10,993
Securitization certificates	1,873	22	72	1,967	5,810
Bank securitization certificates	10	–	–	10	4
CEDES	89	82	–	171	355
Treasury Notes	78	–	–	78	576
Treasury Bonds	–	–	–	–	13
UMS	4,161	56	390	4,607	2,999
Foreign issuer debt instruments	–	–	–	–	106
BREMS R (1)	32,649	31	2	32,682	27,672
UDIBONOS	1,112	51	105	1,268	1,142
Total unrestricted	123,928	1,221	3,056	128,205	133,192
Restricted (b.1.)	94,231	1,068	4,257	99,556	27,773
	$ 218,159	2,289	7,313(2)	227,761	160,965

(1) BREMS R part of the Monetary Regulation Deposit (note 4).
(2) As of December 31, 2020, the result from valuation of available-for-sale securities is presented in OCI net of the negative valuation effect of $2,750, of the derivatives that hedge such securities position.

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As of December 31, 2020 and 2019, the remaining scheduled maturities of available-for-sale are as follows:

Instrument	2020 Less than 1 month	Between 1 and 3 months	More than 3 months	Without fixed term	Total acquisition cost
Unrestricted:					
Equity shares, net	–	–	–	528	528
CETES	–	–	1,979	–	1,979
Sovereign debt Eurobonds	–	–	29,405	–	29,405
Corporate Eurobonds	–	–	5,615	–	5,615
Fixed-rate government bonds	–	–	25,773	–	25,773
BONDES	25	10	3,439	–	3,474
BPAS	–	–	17,182	–	17,182
Securitization certificates	–	–	1,873	–	1,873
Bank securitization certificates	–	10	–	–	10
CEDES	–	89	–	–	89
Treasury Notes	–	–	78	–	78
UMS	–	–	4,161	–	4,161
BREMS R	–	–	32,649	–	32,649
UDIBONDS	–	–	1,112	–	1,112
Total unrestricted	$ 25	109	123,266	528	123,928

Instrument	2019 Less than 1 month	Between 1 and 3 months	More than 3 months	Without fixed term	Total acquisition cost
Unrestricted:					
Equity shares, net	–	–	–	535	535
CETES	–	77	–	–	77
Sovereign debt Eurobonds	–	377	19,224	-	19,601
Corporate Eurobonds	–	–	7,113	–	7,113
Development bank Eurobonds	–	–	320	–	320
BONDESD	109	49	53,554	–	53,712
BPAS	–	–	10,675	–	10,675
Securitization certificates	552	21	5,253	–	5,826
Bank securitization certificates	–	–	4	–	4
CEDES	–	–	216	–	216
BREMS R	–	–	27,643	–	27,643
UDIBONOS	–	–	1,118	–	1,118
UMS	–	–	2,865	–	2,865
Treasury Notes	–	–	552	–	552
Treasury Bonds	–	–	12	–	12
Foreign issuer debt instruments	–	–	101	–	101
Total unrestricted	$ 661	524	128,650	535	130,370

b.1. Collaterals granted (restricted securities) of available-for-sale investments as of December 31, 2020 and 2019 are as follows:

	2020				2019
Instrument	Acquisition cost	Accrued interest	Increase (decrease) valuation	Carrying amount	Carrying amount
Securitization certificates	$ 204	4	4	212	–
Fixed-rate government bonds	4,893	86	124	5,103	–
Corporate Eurobonds	186	1	8	195	–
Securities lending	5,283	91	136	5,510	–
Fixed-rate government bonds	80,647	896	3,878	85,421	21,531
Securitization certificates	2,589	31	46	2,666	–
Corporate Eurobonds	4,419	49	197	4,665	–
BREMSR(1)	–	–	–	–	5,016
Collateral under repurchase/resale agreements	87,655	976	4,121	92,752	26,547
Treasury bills	1,293	1	–	1,294	1,226
Total restricted	$ 94,231	1,068	4,257	99,556	27,773

For the years ended December 31, 2020 and 2019, the returns associated with all the available-for-sale securities of the Group recorded in income for the year, amount to $8,976 and $4,671, respectively (note 30).

(1) BREMS R that is part of the Monetary Regulation Deposit (note 4).

c. Held to maturity:

	2020			2019
Instrument	Acquisition cost	Accrued interest	Carrying amount	Carrying amount
Mortgage Debtor Support Program – Special CETES (note 9)	$ 18,083	2	18,085	17,107
Fixed-rate bonds	62,531	614	63,145	16,720
Deposit certificates	7,122	305	7,427	7,645
Corporate Eurobonds	115	123	238	–
Securitization certificates	11,377	55	11,432	9,531
CBICS	3,257	(47)	3,210	3,129
UDIBONOS	86,546	(62)	86,484	81,385
Held to maturity	$ 189,031	990	190,021	135,517

For the years ended December 31, 2020 and 2019, the returns associated with all securities held to maturity of the Group recorded in income for the year, amount to $8,538 and $8,011, respectively (note 30).

d. Collateral received and pledged

The terms and conditions for the delivery of securities as collateral are in line with the master service agreements of Repurchase Agreements, Securities Loans, and Derivatives (ISDA/CEMOF). These contracts establish the exchange of collateral, which will help mitigate the credit risk, in order to have a reasonable level of collateral; the collateral received or pledged does not fulfill criteria for transfer of ownership, then the entity providing the collateral retains the corporate and economic rights of such instruments, unless there is default on the secured obligations. However, these master service agreements stipulate the temporary use and enjoyment of such securities with the commitment to return them at maturity of the guarantee transaction or margin return calls due to a drop in the guaranteed value at risk.

As a result of the collateral exchange agreements of financial institutions which have a negative market value, a commitment is made to deliver or receive to the other party (which therefore presents a positive market value) assets, liabilities or cash to reduce the exposure for credit risk, under the terms stipulated in the aforementioned bilateral contract.

As of December 31, 2020 and 2019, there are no investments in debt securities of one issuer other than government bonds exceeding 5% of the global capital of the Group.

(7) Repurchase transactions and securities lending-

a. *Repurchase agreement receivables*

As of December 31, 2020 and 2019, repurchase transactions are as follows:

	2020			2019		
	Asset	Liability		Asset	Liability	
Instrument	Receivable under repurchase agreement	Collateral sold or pledged	Debit difference	Receivable under repurchase agreement	Collateral sold or pledged	Debit difference
BONDES	$ 13,459	2,301	11,158	7,564	2,675	4,889
Fixed-rate bonds	43,082	32,913	10,169	100	100	—
BPAS	9,702	7,715	1,987	10,351	4,000	6,351
CETES	97	97	—	23	—	23
Total	$ 66,340	43,026	23,314	18,038	6,775	11,263

b. *Creditors on repurchase/resale agreements*

As of December 31, 2020 and 2019, creditors on repurchase/resale agreements are as follows:

Instrument	2020	2019
BONDESD	$ 41,226	9,077
Bank bonds	-	210
Fixed-rate government bonds	107,690	83,107
BPAS	55,534	61,932
BREMS	-	5,004
CBIC'S	17,426	15,199
Securitization certificates	7,273	4,682
CETES	18,513	42,231
Corporate Eurobonds	863	-
Sovereign debt Eurobonds	3,834	-
UDIBONOS	2,971	1,866
Commercial paper	-	497
Total	$ 255,330	223,805

As of December 31, 2020 and 2019, interest (premiums) receivable recorded by the Group were $3,308 and $2,717, respectively, presented in the consolidated income statements under "Interest income," and interest (premiums) payable recorded by the Group under "Interest expense" for the years ended December 31, 2020 and 2019 were $17,895 and $22,133, respectively, see note 30.

c. Collateral sold or pledged in repurchase/resale agreements and securities lending transactions as of December 31, 2020 and 2019 are as follows:

	2020			2019		
	Memorandum accounts		Liability	Memorandum accounts		Liability
Instrument	Collateral received	Collateral received and sold or pledged	Collateral sold or pledged	Collateral received	Collateral received and sold or pledged	Collateral sold or pledged
Securities lending:						
Fixed-rate government bonds	$ 35,887	35,887	35,887	28,811	28,811	28,811
UDIBONOS	8,229	8,229	8,229	8,825	8,825	8,825
CETES	7,529	7,529	7,529	3,462	3,462	3,462
CBICS	11,721	11,721	11,721	6,063	6,063	6,063
Equity shares, net	475	475	475	419	416	416
	63,841	63,841	63,841	47,580	47,577	47,577
Repurchase agreements						
BONDES	5,908	2,301	—	4,603	2,614	—
Fixed-rate government bonds	43,089	33,018	—	100	100	—
BPAS	8,968	7,715	—	10,025	3,992	—
CETES	97	97	—	19	—	—
	58,062	43,131	—	14,747	6,706	—
Other collateral received	9,683	—	—	5,366	—	—
Total	$131,586	106,972	63,841	67,693	54,283	47,577

Interest payable under collateral sold and granted in repurchase and securities lending transactions recognized in profit or loss for the year ended December 31, 2020 and 2019 amounted to $1,012 and $3,125, respectively, see note 30.

As of December 31, 2020 and 2019, the Group has repurchased agreements for an average period of 4 and 10 days, while transactions involving securities lending are performed over an average period of 39 days and 5 days, respectively.

(8) Derivatives-

As of December 31, 2020 and 2019, securities and derivative transactions are as follows:

a. As of December 31, 2020 and 2019, the Group carries out transactions with derivative financial instruments as described on the following page. Foreign currency position arising from such derivative financial instruments is shown in the assets and liabilities position shown in note 27.

Trading:

	2020			
	Carrying amount		Balance	
	Assets	Liabilities	Asset	Liability
Futures long position	$ 40,897	40,897	—	—
Futures short position	2,720	2,720	—	—
Forwards long position	562,812	584,848	3,258	25,294
Forwards short position	558,092	538,046	23,799	3,753
Options acquired	4,539	—	4,539	—
Options sold	—	13,886	—	13,886
Swaps	1,096,676	1,098,704	166,010	168,038
	$ 2,265,736	2,279,101	197,606	210,971

	2019			
	Carrying amount		Balance	
	Assets	Liabilities	Asset	Liability
Futures long position	$ 50,010	50,010	—	—
Futures short position	46,980	46,980	—	—
Forwards long position	798,738	828,709	1,055	31,026
Forwards short position	849,667	827,599	24,758	2,690
Options acquired	3,289	—	3,289	—
Options sold	—	12,346	—	12,346
Swaps	1,184,182	1,185,758	80,275	81,851
	$ 2,932,866	2,951,402	109,377	127,913

Hedging:

	2020				
	Notional amount		Balance		
	Assets	Liabilities	Assets	Liabilities	Net position
Forwards long position	$ 36,786	37,248	36	498	(462)
Swaps	92,755	88,842	16,285	12,372	3,913
	$ 129,541	126,090	16,321	12,870	3,451

	2019				
	Notional amount		Balance		
	Assets	Liabilities	Assets	Liabilities	Net position
Forwards long position	$ 2,685	2,814	—	129	(129)
Swaps	102,596	99,923	10,932	8,259	2,673
	$ 105,281	102,737	10,932	8,388	2,544

b. **Future and forward contracts** – For the year ended December 31, 2020, the Group carried out transactions in organized markets (Mexican Derivatives Market (Mex-Der) and Chicago, obtaining a profit of $16,525 distributed in rates of $1,683, currencies of $16,892, $(2,099) indexes and securities of $49. For the year ended December 31, 2019, the Institution carried out transactions in organized markets (Mexican Derivatives Market (Mex-Der) and Chicago, obtaining a loss of $(4,903) distributed according to the underlying in Rates for $(33), Foreign currency for $(4,578), Indexes for $42 and Securities for $(334).

The Group also entered into advanced "forwards" contracts with the main currencies. As of December 31, 2020, open contracts are as follows:

Trading:

		Sales		Purchases		
Type of transaction	Underlying	Receivable	Contract value	Contract value	Payable	Net position
	U.S. dollars	$ 1,527	1,527	40,324	40,324	—
Futures	Index	272	272	—	—	—
	DC24 Bond	-	-	401	401	—
	S&P	921	921	172	172	—
		$ 2,720	2,720	40,897	40,897	—

		Sales		Purchases		
Type of transaction	Underlying	Receivable	Contract value	Contract value	Payable	Net position
	U.S. dollars	$531,154	510,597	543,557	566,309	(2,195)
Forwards	Equity	26,938	27,449	15,310	14,876	(77)
	Index	—	—	3,945	3,663	282
		$558,092	538,046	562,812	584,848	(1,990)

Hedging:

		Sales		Purchases		
Type of transaction	Underlying	Receivable	Contract value	Contract value	Payable	Net position
Forwards	U.S. dollars	$ —	—	36,786	37,248	(462)

At 2019 year end the following contracts continue opened:

Trading:

		Sales		Purchases		
Type of transaction	Underlying	Receivable	Contract value	Contract value	Payable	Net position
	U.S. dollars	$ 40,184	40,184	48,908	48,908	—
Futures	Index	6,330	6,330	—	—	—
	S&P	466	466	1,102	1,102	—
		$ 46,980	46,980	50,010	50,010	—

		Sales		Purchases		
Type of transaction	Underlying	Receivable	Contract value	Contract value	Payable	Net position
	U.S. dollars	$ 835,707	813,497	783,779	814,005	(8,016)
Forwards	Equity	13,960	14,102	13,634	13,481	11
	Index	-	-	1,325	1,223	102
		$ 849,667	827,599	798,738	828,709	(7,903)

Hedging:

		Sales		Purchases		
Type of transaction	Underlying	Receivable	Contract value	Contract value	Payable	Net position
Forwards	U.S. dollars	$ —	—	2,685	2,814	(129)

c. **Options** - As of December 31, 2020, options transactions are as follows:

Trading:

	Type of transaction	Underlying	Reference amount	Contract value
Purchases	OTC Options[1]	U.S. dollars	$ 59,079	$ 2,491
		Interest rates	51,831	689
		Equity Securities and Indexes	8,462	513
				3,693
	OM Options[2]	Equity Securities and Indexes	$ 13,509	846
				$ 4,539
Sales	OTC Options[1]	U.S. dollars	$ 61,102	$ 2,024
		Interest rates	97,641	306
		Equity Securities and Indexes	11,511	10,629
				12,959
	OM Options[2]	Equity Securities and Indexes	$ 17,346	927
		U.S. dollars	20	-
				927
				$ 13,886

As of December 31, 2019, the Group has entered into the following option transactions:

	Type of transaction	Underlying	Reference amount	Contract value
Purchases	OTC Options[1]	U.S. dollars	$ 83,212	$ 1,283
		Interest rates	85,698	650
		Equity Securities and Indexes	8,032	1,134
				3,067
	OM Options[2]	Equity Securities and Indexes	$ 2,700	222
				$ 3,289
Sales	OTC Options[1]	U.S. dollars	$ 85,327	$ 1,726
		Interest rates	122,862	287
		Equity Securities and Indexes	14,512	10,173
				12,186
	OM Options[2]	Equity Securities and Indexes	$ 4,734	157
		U.S. dollars	173	3
				160
				$ 12,346

[1] OTC (Over-the-Counter)
[2] OM (Organized Markets)

d. **Swaps**– As of December 31, 2020, the Group's swap transactions are as follows:

Trading:

Underlying	Currency	Contract value receivable	Contract value payable	Receivable	Payable	Net position
Currency	Peso	$ 134,799	128,877	198,033	196,552	1,481
	USD U.S. dollar	168,662	149,149	188,095	154,025	34,070
	UDIS	58,097	61,672	–	–	–
	Euro	40,113	64,847	42,233	74,437	(32,204)
	Yen	–	159	–	160	(160)
	COP	2,185	–	–	–	–
	GBP	1,360	1,360	1,747	1,775	(28)
	CLP	3,336	–	–	–	–
				430,108	426,949	3,159
			Notional amount			
Interest rates	Peso (1)		$4,137,165	576,867	580,667	(3,800)
	Euro		144,507	214	583	(369)
	USD		1,462,904	89,425	89,853	(428)
	COP		708	41	14	27
				666,547	671,117	(4,570)
Equity	Peso		$ 3,518	105	289	(184)
	USD		1,101	34	147	(113)
				139	436	(297)
CDS	USD		$ 199	2	3	(1)
	Subtotal			1,096,796	1,098,505	(1,709)
Valuation adjustments				(120)	199	(319)
	Total			$1,096,676	1,098,704	(2,028)

(1) In 2020, the Group entered into Nominal Interest Rate Swaps in Mexican pesos with various institutions at annual rates ranging from 3.50% and 20.96%.

As of December 31, 2019, the Group's swap transactions are as follows:

Trading:

Underlying	Currency	Contract value receivable	Contract value payable	Receivable	Payable	Net position
Currency	Peso	$ 171,479	176,945	229,629	239,353	(9,724)
	USD U.S. dollar	248,566	194,664	264,478	198,784	65,694
	UDIS	58,624	62,567	–	–	–
	Euro	45,577	87,714	46,535	95,699	(49,164)
	Yen	–	127	–	129	(129)
	COP	2,191	–	–	–	–
	GBP	1,249	1,249	1,588	1,612	(24)
	CLP	2,981	–	–	–	–
	CHF	–	3,900	–	3,980	(3,980)
				542,230	539,557	2,673

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		Notional amount	Receivable	Payable	Net position
Interest rates........	Peso [1]	$3,944,282	519,850	522,204	(2,354)
	Euro	156,123	1,302	1,573	(271)
	USD	1,599,354	120,759	122,021	(1,262)
	GBP	500	4	7	(3)
	COP	700	74	63	11
			641,989	645,868	(3,879)
Equity	Peso	$ 1,208	22	102	(80)
	USD	138	3	16	(13)
			25	118	(93)
CDS	USD	$ 189	4	5	(1)
	Subtotal		1,184,248	1,185,548	(1,300)
Valuation adjustments			(66)	210	(276)
	Total		$1,184,182	1,185,758	(1,576)

[1] In 2019, the Group entered into Nominal Interest Rate Swaps in Mexican pesos with various institutions at annual rates ranging from 4.46% and 20.26%.

Swaps for hedging:

As of December 31, 2020 swaps for hedging purposes :

Fair value hedging:

Underlying	Currency	Contract value receivable	Contract value payable	Receivable	Payable	Net position
Currency	Peso	$ 14,489	14,649	14,766	15,285	(519)
	USD	21,972	4,651	24,862	5,100	19,762
	GBP	–	1,283	–	1,473	(1,473)
	Euro	–	14,793	–	16,313	(16,313)
				39,628	38,171	1,457
			Notional amount			
Interest rates	Peso [1]		$ 34,819	12,441	15,185	(2,744)
	USD		77,829	23,854	18,462	5,392
				36,295	33,647	2,648
				75,923	71,818	4,105

Cash flow hedging:

Underlying	Currency	Contract value receivable	Contract value payable	Receivable	Payable	Net position
Currency	Peso	$ 13,301	–	15,340	–	15,340
	USD	–	13,618	–	15,566	(15,566)
	Euro	–	170	–	186	(186)
				15,340	15,752	(412)
			Notional amount			
Interest rates	Peso [1]		$ 14,890	1,492	1,272	220
				16,832	17,024	(192)
	Total			$ 92,755	88,842	3,913

[1] In 2020, the Group entered into Nominal Interest Rate Swaps in Mexican pesos with various institutions at annual rates ranging from 4.48% and 8.91%.

As of December 31, 2019, swaps for hedging purposes are as follows:

Fair value hedging:

Underlying	Currency	Contract value receivable	Contract value payable	Receivable	Payable	Net position
Currency	Peso	$ 20,441	24,600	21,361	25,877	(4,516)
	USD	38,159	8,853	41,385	9,523	31,862
	GBP	–	1,179	–	1,354	(1,354)
	Euro	–	22,051	–	24,118	(24,118)
				62,746	60,872	1,874
			Notional amount			
Interest rates	Peso[1]		$ 30,729	13,879	14,410	(531)
	USD		78,576	25,773	24,405	1,368
				39,652	38,815	837
				102,398	99,687	2,711

Cash flow hedging:

		Notional amount			
Interest rates	Peso[1]	$ 6,005	198	236	(38)
	Total		$ 102,596	99,923	2,673

(1) In 2019, the Group entered into Nominal Interest Rate Swaps in Mexican pesos with various institutions at annual rates ranging from 5.78% and 8.91%.

Collateral received in derivatives as of December 31, 2020 and 2019 is recorded under “Creditors on cash received as collateral” as shown in the next page.

	2020			2019
Collateral received in cash in derivative transactions	Acquisition cost	Accrued interest	Carrying amount	Carrying amount
Actinver Casa de Bolsa, S. A. de C. V.	$ 2		2	5
Alsea S. A. B. de C. V.	298	--	298	57
Banco Afirme, S. A. IBM	11	--	11	18
Banco Mifel, S. A. IBM	20	--	20	8
Banco Actinver, S. A.	44	--	44	--
Banco Base, S. A. IBM	42	--	42	11
Banco Bilbao Vizcaya Argentaria de Colombia, S. A.	3	--	3	--
Banco del Bajío, S. A. IBM	1	--	1	20
Banco Inbursa, S. A. IBM	2,271	--	2,271	635
Banco Invex, S. A. IBM	66	--	66	4
Banco Mercantil del Norte, S. A. IBM	--	--	--	301
Banco Nacional de Obras y Servicios Públicos, S.N.C.	4,128	--	4,128	1,289
Banco Monex, S. A. IBM	62	--	62	--
Banco Regional, S. A. IBM	518	--	518	275
Banco Santander México, S. A. IBM	400	--	400	–
Banco Ve por más, S. A. IBM	161	--	161	–
Bank of America México IBM (antes Bank of America Merril Lynch)	31	--	31	69
Casa de Bolsa Finamex, S.A. de C.V.	--	--	--	27
Casa de Bolsa Vector S. A. de C. V.	10	--	10	--
Compañía Nacional Almacenadora, S. A. de C. V.	17	--	17	--
Credit Agricole CIB	1,362	--	1,362	1,153
Credit Suisse International	677	--	677	573
Chace JP Morgan	2	--	2	--
Deutsche Bank	1,503	--	1,503	2,050
Goldman Sachs México Casa de Bolsa	2,010	--	2,010	479
Grupo Axo, S. A. P. I. de C. V.	18	--	18	--
HSBC México, S. A. IBM	--	--	--	55
Intercam Banco, S. A. IBM.	13	--	13	--
Intercam Casa de Bolsa, S. A. de C. V.	16	--	16	29
J. Aron & Company	800	--	800	716
Masari Casa de Bolsa, S. A. de C. V.	15	--	15	1
Mizuho Bank México IBM	2	--	2	--
Morgan Stanley & CO	--	--	--	4
Morgan Stanley &S A S	292	--	292	410
MUFG Bank México IBM	80	--	80	92
Nacional Financiera, S. N. C.	638	--	638	53
Natixis	2,236	1	2,237	1,750
Scotiabank Chile	245	1	246	--
Toronto Dominion Bank	--	--	--	33
UBS AG	--	--	--	66
Collateral received in cash in derivative transactions	17,994	2	17,996	10,183
Collateral received in cash other than derivative transactions	1,766	-	1,766	135
	$ 19,760	2	19,762	10,318

As of December 31, 2020 and 2019, the Group has recorded collateral received in memorandum accounts under “Collateral received” for $4,586 and $5,177, respectively.

e. **Transactions with embedded derivatives**

Embedded derivatives as of December 2020 and 2019 shown in next page are part of the derivatives for trading balances.

	2020			
	Carrying amount		Balance	
	Asset	Liability	Asset	Liability
Options acquired	$ 129	–	129	–
Options sold	–	136	–	136
Swaps	1,522	1,580	60	118
	$ 1,651	1,716	189	254

	2019			
	Carrying amount		Balance	
	Asset	Liability	Asset	Liability
Options acquired	$ 259	–	259	–
Options sold	–	493	–	493
Swaps	1,610	1,668	159	217
	$ 1,869	2,161	418	710

e.1. Embedded options (Underlying):

Trading:

			2020	
		Underlying	Nominal amount	Fair value
Purchases	OTC Options	U.S. dollars	$ 1,211	6
		Interest rates	11,513	123
				$ 129

			2020	
		Underlying	Nominal amount	Fair value
Sales	OTC Options	U.S. dollars	$ 1,135	6
		Interest rates	2,176	1
		Index	1,263	129
				$ 136

			2019	
		Underlying	Nominal amount	Fair value
Purchases	OTC Options	U.S. dollars	$ 2,029	4
		Index	22,815	255
				$ 259

			2019	
		Underlying	Nominal amount	Fair value
Sales	OTC Options	U.S. dollars	$ 1,553	58
		Interest rates	9,384	16
		Index	4,383	419
				$ 493

e.2 Embedded swaps (Underlying)

Trading:

		2020			
Underlying	Currency	Notional amount	Market value receivable	Market value payable	Fair value
Currency	Peso	$ 717	720	723	(3)
	USD	799	652	650	2
			1,372	1,373	(1)
Interest rate	Peso	$ 5,798	150	207	(57)
	USD	100	--	–	--
			150	207	(57)
			$ 1,522	1,580	(58)

		2019			
Underlying	Currency	Notional amount	Market value receivable	Market value payable	Fair value
Currency	Peso	$ 484	472	475	(3)
	USD	240	257	254	3
			729	729	–
Interest rate	Peso	$ 13,255	875	939	(64)
	USD	1,132	6	–	6
			881	939	(58)
			$ 1,610	1,668	(58)

e.3 Forward embedded (Underlying)

As of December 31, 2020 and 2019, the Group does not have embedded forwards.

According to the structured banking bonds issuance programs, the Group has recorded as of December 31, 2020 options and embedded swaps with nominal value of $17,298 and $7,414, respectively (options and embedded swaps for $40,164 and $15,111, respectively, as of December 31, 2019), with underlying interest rates for swaps and foreign currencies, indexes and interest rates for options.

As of December 31, 2020, the Group has entered into the following hedge contracts as follow:

Type of Hedge relationship: Cash Flow Hedges

Description of hedge item	Hedge risk	Hedge instrument	Maximum maturity date of hedge	Hedge instrument fair value	Periods in which flows affect results	Amount recognized in comprehensive income of period	Amount reclassified from equity to income statement	Item in consolidated income statement where hedge is applied	Item in consolidated balance sheet where primary position is recognized	Ineffectiveness recognized
Partial hedge of Monetary Regulation Deposit (DRM)[(1) and (2)]	Variable flows from DRM	12 IRS FIXED/TIIE	Dec-24	$ 209	48 months	$ 241	$ (20)	Interest margin from cash and cash equivalents	Restricted cash	$ –
Expenses and investment hedge in USD and EUR[(2)]	Variation of exchange rate in estimated expense cash flows	22 FWD SALE USD/MXP 1 FWD SALE EUR/MXP	Dec-21	$ (346)	12 months	$ (216)	$ 66	Expenses	Property, plant and equipment, advertising, computing	$ –
Cash flow hedge United Mexican States USD and EUR	Change from fixed currency to domestic fixed currency	52 CCS FIXED/FIXED USD 1 CCS FIXED/FIXED EUR	Apr-30	$ (543)	113 months	$ –	$ –	Interest margin from securities investment	Investments in securities	$ –
Cash flow hedge CCS Corporate bonds	Change from fixed currency to fixed domestic	1 CCS FIXED/FIXED USD	Jul-25	$ 8	56 months	$ –	$ –	Interest margin from securities investment	Investments in securities	$ –
Cash flow hedge IRS corporate bonds	Change from fixed currency to fixed domestic	3 IRS FIXED/FIXED MXP	Oct-23	$ 3	34 months	$ –	$ –	Interest margin from securities investment	Investments in securities	$ –

(1) As of December 31, 2020, the remaining balance of maturities of hedging forwards amounts to $20.

* Up to date, all cash flows from foreseen transactions occurred within the terms originally agreed upon.

Type of Hedge relationship: Fair Value

Description of hedge item	Nature of hedge risk	Hedge instrument	Maximum maturity date of hedge	Hedge instrument fair value	Gain/Loss of hedge instrument as of December 2020	Gain/Loss of hedge item as of December 2020	Item in balance sheet were primary position is recorded	Ineffectiveness recognized
Hedge of USD and MXP fixed-rate loans to change to floating (2)	Fixed Rate Risk on USD and MXN fixed rate loans	2 IRS pays fixed interest in USD and receives Variable, 2 IRS pays fixed interest in MXP and receives Variable	2040	$ (2,145)	$ (1,271)	$ 1,262	Performing loan portfolio	$ –
Hedge of Mexican sovereign bonds in EUR/USD/GBP(2)	Fixed rate on UMS bonds in EUR/USD/GBP	62 CCS V/F	2025	$ (5,838)	$ (107)	$ 106	Securities investment	$ –
Hedge of issuance of subordinated notes in USD(2)	Fixed rate on F/F notes in USD	32 IRS F/V	2029	$ 4,809	$ 3,702	$ (3,712)	Subordinated obligations outstanding	$ –
Hedge of issuance of subordinated notes in USD (2) and (3)	Fixed rate on F/F notes	16 CCS F/V	2024	$ 9,593	$ 715	$ (715)	Subordinated obligations outstanding	$ –
Hedge of corporate bonds and M Bonds (2)	Fixed rate on USD, EUR, UDI	31 CCS V/F	2025	$ (437)	$ (54)	$ 37	Securities investment	$ –
Hedge of corporate bonds (2)	Fixed rate on USD bonds	45 IRS V/F (43 MXN and 2 USD)	2027	$ (1,384)	$ 745	$ 744	Securities investment	$ –
Asset Hedge Grupo Carso	Fixed rate on EUR loans	3 CCS	2023	$ ---	$ 589	$ (581)	Performing loan portfolio	$ –
Securitization Certificates	Fixed and floating rate in MXP	3 IRS F/V	2027	$ 783	$ (492)	$ 492	Issuance of obligations	$ –

(2) As of December 31, 2020, the balance of interest from hedging derivatives open position amounts to $1,889.

(3) As of December 31, 2020, there is an effect for the exchange rate component amounting to $7,560.

* Fair value of cross currency swaps (CCS) does not include an exchange rate component, as this is not part of the hedging relationship.

IRS - Interest rate swaps. CCS - Cross currency swaps.

As of December 31, 2019, the Group has entered into the following hedge contracts as follow:

Type of Hedge relationship: Cash Flow Hedges

Description of hedge item	Hedge risk	Hedge instrument	Maximum maturity date of hedge	Hedge instrument fair value	Periods in which flows affect results	Amount recognized in comprehensive income of period	Amount reclassified from equity to income statement	Item in consolidated income statement where hedge is applied	Item in consolidated balance sheet where primary position is recognized	Ineffectiveness recognized
Partial hedge of Monetary Regulation Deposit (DRM)[(1) and (2)]	Variable flows from DRM	15 IRS FIXED/TIIE	Jun-20	$ (32)	6 months	$ 174	$ (69)	Interest margin from cash and cash equivalents	Restricted cash	$ –
Expenses and investment hedge in USD and EUR[(2)]	Variation of exchange rate in estimated expense cash flows	19 FWD SALE USD/MXP 9 FWD SALE EUR/MXP	Jun-20	$ (129)	6 months	$ (172)	$ (257)	Expenses	Property, plant and equipment, advertising, computing	$ –
Cash flow hedge United Mexican States USD and EUR	Change from fixed currency to domestic fixed currency	13 CCS FIXED/USD FIXED	Jan-25	$ 188	62 months	$ –	$ –	Interest margin from securities investment	Restricted cash	$ –

[(1)]As of December 31, 2019, $9 were recognized, net of deferred taxes, due to amortization of early maturity of DRM hedge swaps.

[(2)]As of December 31, 2019, the remaining balance of maturities of hedging forwards amounts to $132.

*Up to date, all cash flows from foreseen transactions occurred within the terms originally agreed upon.

Type of Hedge relationship: Fair Value

Description of hedge item	Nature of hedge risk	Hedge instrument	Maximum maturity date of hedge	Hedge instrument fair value	Gain/Loss of hedge instrument as of December 2019	Gain/Loss of hedge item as of December 2019	Item in balance sheet were primary position is recorded	Ineffectiveness recognized
Hedge of USD and MXP fixed-rate loans to change to floating [(2)]	Fixed Rate Risk on USD and MXN fixed rate loans	2 IRS 2 IRS pays fixed interest in USD and receives Variable, 2 IRS pays fixed interest in MXP and receives Variable	2040	$ (874)	$ (119)	$ 117	Performing loan portfolio	$ –
Hedge of Mexican sovereign bonds in EUR/USD/GBP [(2)]	Fixed rate on UMS bonds in EUR/USD/GBP	70 CCS V/F	2025	$ (4,229)	$ 159	$ (159)	Securities investment	$ –
Hedge of issuance of subordinated notes in USD[(2)]	Fixed rate on V/F notes in USD	34 IRS F/V	2029	$ 1,106	$ (655)	$ 655	Subordinated obligations outstanding	$ –
Hedge of issuance of subordinated notes in USD[(2) and (3)]	Fixed rate on V/F notes	19 CCS F/V	2024	$ 7,035	$ (215)	$ 215	Subordinated obligations outstanding	$ –
Hedge of corporate bonds [(2) and (3)]	Fixed rate on USD, EUR, UDI	33 CCS V/F	2025	$ (322)	$ (246)	$ 251	Securities investment	$ –
Hedge of corporate bonds [(2)]	Fixed rate on USD bonds	36 IRS V/F (34 MXN and 3 USD)	2027	$ 102	$ 30	$ (35)	Securities investment	$ –
Asset Hedge Grupo Carso	Fixed rate on EUR loans	3 CCS	2023	$ 349	$ (292)	$ 292	Securities investment	$ –
Securitization certificates	Fixed rate on MXN and Variable Rate on MXN	3 IRS F-V	2027	$ 291	$ 291	$ (291)	Issuance of liabilities	$ –

[(2)]As of December 31, 2019, the balance of interest from hedging derivatives open position amounts to $522.

[(3)] As of December 31, 2019, there is an effect for the exchange rate component amounting to $5,957.

* Fair value of cross currency swaps (CCS) does not include an exchange rate component, as this is not part of the hedging relationship.

IRS - Interest rate swaps. CCS - Cross currency swaps.

(9) Loan Portfolio-

Loans classified by type of loan as of December 31, 2020 and 2019, are as follows:

	Performing portfolio		Non-performing portfolio		Total	
	2020	2019	2020	2019	2020	2019
Commercial loans						
Denominated in MXP:						
Commercial	$ 335,753	338,378	11,244	9,279	346,997	347,657
Rediscounted portfolio	10,708	9,856	166	53	10,874	9,909
Leases	2,334	1,783	21	83	2,355	1,866
Denominated in UDI's (MXP equivalent):						
Commercial	1	3	1	1	2	4
Denominated in foreign currency (MXP equivalent):						
Commercial	136,923	154,985	484	54	137,407	155,039
Rediscounted portfolio	977	776	54	48	1,031	824
Leases	2,182	1,841	13	-	2,195	1,841
Commercial or business activity	488,878	507,622	11,983	9,518	500,861	517,140
Denominated in MXP:						
Loans to financial entities	26,739	32,783	-	-	26,739	32,783
Loans to government entities	147,696	134,470	-	-	147,696	134,470
Denominated in foreign currency (MXP equivalent):						
Loans to financial entities	1,340	379	-	-	1,340	379
Loans to government entities	13,919	9,255	-	-	13,919	9,255
Total commercial loans	678,572	684,509	11,983	9,518	690,555	694,027
Consumer loans denominated in MXP:						
Credit cards	105,526	112,643	7,620	4,478	113,146	117,121
Other consumer loans	178,715	189,584	8,527	5,863	187,242	195,447
Denominated in foreign currency (MXP equivalent):						
Other consumer loans	107	139	-	-	107	139
Total consumer loans	284,348	302,366	16,147	10,341	300,495	312,707
Mortgage loans denominated in MXP:						
Residential and non-residential	238,717	218,178	8,518	6,748	247,235	224,926
Low income	6,941	9,190	530	562	7,471	9,752
Denominated in (MXP equivalent):						
Residential and non-residential	3,238	3,830	306	285	3,544	4,115
Denominated in foreign currency (MXP equivalent):						
Residential and non-residential	13	15	-	-	13	15
Total mortgage loans	248,909	231,213	9,354	7,595	258,263	238,808
Total loan portfolio	$1,211,829	1,218,088	37,484	27,454	1,249,313	1,245,542

As of December 31, 2020 and 2019 mortgage loan portfolio includes restricted securitized performing portfolio of $961 and $2,623, respectively, and non-performing portfolio of $28 and $52, respectively.

Commercial loans are described below; the distressed and non-distressed performing and non-performing portfolios as of December 31, 2020 and 2019, are also identified. This portfolio does not include guarantees and interest collected in advance, which are shown as part of the commercial portfolio on the consolidated balance sheet.

	2020				
	Distressed		Non-distressed		
	Performing	Non-Performing[1]	Performing	Non-Performing	Total
Commercial or business	$ -	9,417	463,986	264	473,667
Financial entities	-	-	27,367	-	27,367
Government entities	-	-	161,615	-	161,615
SME credit cards	-	1,449	25,869	846	28,164
Corporate credit cards	-	7	123	-	130
Total	$ -	10,873	678,960	1,110	690,943

	2019				
	Distressed		Non-distressed		
	Performing	Non-Performing[1]	Performing	Non-Performing	Total
Commercial or business	$ -	7,477	478,205	452	486,134
Financial entities	-	-	34,321	-	34,321
Government entities	-	-	143,725	-	143,725
SME credit cards	270	2,279	28,246	783	31,578
Corporate credit cards	3	22	282	-	307
Total	$ 273	9,778	684,779	1,235	696,065

[1] It includes loans written off from the consolidated balance sheet (financially written-off portfolio).

Restructured and renewed portfolio as of December 31, 2020 and 2019 were as follows:

	Restructured and renewed in 2020		Restructured and renewed in previous years		As of December 31, 2020
	Performing	Non-Performing	Performing	Non-Performing	Total
Commercial	$ 40,579	881	48,030	607	90,097
Financial entities	-	-	13	-	13
Government entities	-	-	27,178	-	27,178
Consumer loans	1,590	1,808	58	851	4,307
Mortgage loans	9,756	3,066	8,309	4,429	25,560
Total	$ 51,925	5,755	83,588	5,887	147,155

	Restructured and renewed in 2019		Restructured and renewed in previous years		As of December 31, 2019
	Performing	Non-Performing	Performing	Non-Performing	Total
Commercial	$ 29,049	375	42,536	673	72,633
Financial entities	-	-	23	-	23
Government entities	8,744	-	21,254	-	29,998
Consumer loans	85	1,377	47	856	2,365
Mortgage loans	272	674	9,942	5,461	16,349
Total	$ 38,150	2,426	73,802	6,990	121,368

As of December 31, 2020 and 2019, the Group holds collateral in real property for the amount of $9,298 and $8,532, respectively and it holds collateral in securities for the amount of $313 both years, for restructured commercial loans.

As of December 31, 2020 and 2019 aging of non-performing portfolio is as follows:

	2020			
	Period			
	1 to 180 days	181 to 365 days	1 to 2 years	Total
Commercial or business activity	$ 5,325	2,554	4,104	11,983
Consumer loans	15,542	597	8	16,147
Mortgage loans	4,199	1,283	3,872	9,354
Total	$ 25,066	4,434	7,984	37,484

	2019			
	Period			
	1 to 180 days	181 to 365 days	366 to 2 years	Total
Commercial or business activity	$ 2,821	4,037	4,155	11,013
Consumer loans	9,737	604	-	10,341
Mortgage loans	1,914	2,070	3,611	7,595
Total	$ 14,472	6,711	7,766	28,949
Collateral[(1)]				(1,495)
Net total				$ 27,454

[(1)]The non-performing portfolio as of December 31, 2019 is net of collateral received in cash from Development Funds.

As of December 31, 2020 and 2019, unaccrued commissions for initial loan origination by type of loan and average amortization period are comprised as shown below:

	2020			
	By amortization period			
	1 to 5 years	6 to 15 years	More than 15 years	Total
Commercial or business activity	$ 913	321	109	1,343
Consumer loans	856	275	-	1,131
Mortgage loans	2	25	419	446
Total	$ 1,771	621	528	2,920

	2019			
	By amortization period			
	1 to 5 years	6 to 15 years	More than 15 years	Total
Commercial or business activity	$ 1,072	335	140	1,547
Consumer loans	985	342	-	1,327
Mortgage loans	2	21	380	403
Total	$ 2,059	698	520	3,277

As of December 31, 2020 and 2019, the balances of non-performing credit loan portfolio fully reserved and eliminated from the balance sheet are as follows:

	2020	2019
Business or commercial activity	$ 5,453	13,306
Consumer loans:		
Credit cards	2,738	3,279
Other consumer loans	2,184	3,058
	4,922	6,337
Mortgage loans	4,338	4,523
Total	$ 14,713	24,166

For the years ended December 31, 2020 and 2019, the amounts of portfolio sold excluding securitization transactions, are as follows:

Portfolio	2020	2019
Commercial or business activity	$ 258	512
Consumer loans	26,415	17,962
Mortgage loans	1,820	1,287
Total	$ 28,493	19,761

As of December 31, 2020 and 2019, the amount of lines of credit and letters of credit recorded in memoranda accounts amount to $638,851 and $632,810, respectively.

As of December 31, 2020, and 2019, the revenues from interest income and commissions recorded in the net interest income, segmented by type of loan, are composed as follows:

	2020			2019
Type of loan	Interest	Commission	Total	Total
Commercial loans denominated in MXP:				
Commercial	32,905	1,047	33,952	36,067
Rediscounted portfolio	1,161	-	1,161	1,313
Leases	198	-	198	195
Denominated in foreign currency (MXP equivalent):				
Commercial	6,820	-	6,820	11,851
Rediscounted portfolio	108	-	108	181
Leases	98	-	98	88
Commercial or business activity	41,290	1,047	42,337	49,695
Loans to financial entities	2,030	7	2,037	2,242
Loans to government entities	10,099	48	10,147	11,076
Total commercial loans	53,419	1,102	54,521	63,013
Consumer loans				
Credit cards	27,382	37	27,419	30,969
Other consumer loans	36,365	800	37,165	39,647
Total Consumer loans	63,747	837	64,584	70,616
Mortgage loans	24,477	58	24,535	22,917
Total, see note 30	$ 141,643	1,997	143,640	156,546

As of December 31, 2020 and 2019, loans classified by economic sectors are as follows:

	2020		2019	
	Amount	Concentration percentage	Amount	Concentration percentage
Private (companies and individuals)	$ 500,855	40.09%	$ 517,134	41.52%
Credit cards and consumer	300,495	24.05%	312,707	25.11%
Mortgage	258,263	20.67%	238,808	19.17%
Loans to government entities	161,615	12.94%	143,725	11.54%
Financial	27,841	2.23%	32,004	2.57%
Foreign (non-Mexican entities)	238	0.02%	1,158	0.09%
Other past-due loans	6	-	6	-
Total	$ 1,249,313	100.00%	$ 1,245,542	100.00%

Related-party loans- As of December 31, 2020 and 2019, loans granted to related parties in accordance with the provisions of Article 73 of the Banking Law, amounted to $41,559 and $33,747, respectively, that includes $17,427 and $16,453 in letters of credit, respectively, which are recorded in the memorandum accounts.

As described in the loan portfolio accounting policies, as a result of the health contingency caused by COVID-19 and the negative impact on the economy, on March 26, 2020 the Commission temporarily issued special accounting criteria for credit institutions regarding the consumer, residential mortgage and commercial loan portfolios, for clients who have been affected and who were classified as current as of February 28, 2020 (except for those granted to related parties as provided in Articles 73, 73 Bis and 73 Bis 1 of the Banking Law). With respect to these special accounting criteria, the Bank applied the special accounting criteria mentioned in the accounting policies.

As a result of the adherence of the borrowers to the support programs, the balance of the supported loan portfolio as of December 31, 2020 is $278,483 and corresponds to 1,562,010 contracts, mainly in the credit card, consumer and mortgage portfolios.

The support programs were granted beginning on April 2020, with most of the adhered loan portfolio in performing accounting status on the date of adhesion to the program, however, due to defaults in the supported loan portfolio occurring after the expiration of the program, a total amount of non-performing portfolio of $18,438 was recognized as of December 31, 2020, representing 6.62% of the total supported loan portfolio.

Accrued interest that would have been recognized in the financial margin for the year ended December 31, 2020, would have been $7,332 if the support plans had not been applied.

Loan support program-

Position in special Cetes and special "C" Cetes, which the Group keeps in the financial statement under "Securities held to maturity":

As of December 31, 2020, the remnant of the special Cetes and special “C” Cetes is composed as follows:

	Special CETES			Special CETES “C”		
Originating trust	No. of securities	Amount	Maturity date	No. of securities	Amount	Maturity date
422-9	128,738,261	$ 16,580	07/07/2022	-	$ -	-
423-9	10,656,993	1,372	01/07/2027	468,306	19	01/07/2027
431-2	964,363	114	04/08/2022	1,800	-	04/08/2022
Total (note 6c).		$ 18,066			$ 19	

Loan granting policies and procedures – the Group’s credit manual regulates the granting, control and recovery of loans. This manual was authorized by the Board of Directors and outlines the parameters to be followed by officers involved in the credit process, which are based on the Banking Law, the conservative credit rules established by the Commission and sound banking practices.

Credit authorization under the Board of Directors’ responsibility is centralized in empowered committees and officers.

In the credit management function the general process from origination to recovery is defined, specifying, by business unit, the policies, procedures and responsibilities of the officers involved, as well as the tools to be used in each step of the process.

The credit process is based on a thorough analysis of loan applications, in order to determine the comprehensive risk of each debtor. For most loans, debtors must at least have an alternate repayment source.

The principal policies and procedures to determine concentrations of credit risk which form part of the credit manuals are presented below:

Common risk

– Establish the criteria for determining the individuals or corporations that represent common risk for the Institution.
– Establish the criteria for determining whether individuals and/or corporations act in unison and are integrated into the same business group or consortium, in order to identify potential accumulated risk and the maximum limit of financing to be granted.

Maximum financing limit

– Make known the maximum legal credit rules issued by the authorities.
– Communicate the updated maximum credit limit for the Group, as well as the handling of exceptions.

Risk diversification

As of December 31, 2020 and 2019, the Bank maintains the following credit risk operations in compliance with the general risk diversification rules established in the accounting Criteria and applicable to asset and liability transactions, as follows:

- As of December 31, 2020 and 2019, the Bank keeps loans granted to a debtor or groups of persons representing a common risk for an individual amount of $22,692 and $23,422, respectively, which represents 9.64% and 11.26%, respectively, of the Bank’s basic capital.

- As of December 31, 2020 and 2019, the maximum amount of financing with the three largest debtors amounts to $48,937 and $43,981, respectively and represent 20.79% and 21.15% respectively of the Bank's basic capital.

Potential risk:

- Loan applications must be approved in terms of the amount of the risk.
- Avoid risk exposure above the legal limit and other institutional limits established.

Consumer loans, mortgage loans and loans to small and micro-sized companies are subject to automated evaluation and follow-up mechanisms that have been implemented, based on certain standard factors which, under the Group's criteria, are used to make decisions and allow greater efficiency in the handling of the high volume of loan applications.

(10) Restructured loans denominated in UDIS-

As of December 31, 2020 and 2019, restructured loans denominated in UDIS amounted to $391 and $598, respectively.

(11) Allowance for loan losses-

Loan ratings of the Group, including the amounts for irrevocable loans and letters of credit recorded in memorandum accounts, made for the purpose of recording loan loss allowance based on the requirements discussed in Note 3, are shown below:

	2020				
		Allowance			
Risk category	Total loans	Commercial	Consumer	Mortgage	Total allowances
A1	$ 947,933	1,569	1,295	250	3,114
A2	103,216	738	867	14	1,619
B1	84,837	286	2,231	63	2,580
B2	54,750	120	1,991	125	2,236
B3	40,007	708	1,164	43	1,915
C1	28,419	401	1,505	218	2,124
C2	21,523	112	3,127	289	3,528
D	14,949	1,416	1,789	1,322	4,527
E	31,388	5,840	12,334	1,987	20,161
	$ 1,327,022	11,190	26,303	4,311	41,804
Additional allowance	-	3,494	2,558	492	6,544
Total	$ 1,327,022	14,684	28,861	4,803	48,348

	2019				
		Allowance			
Risk category	Total loans	Commercial	Consumer	Mortgage	Total allowances
A1	$ 985,389	1,626	1,382	232	3,240
A2	77,428	381	1,014	56	1,451
B1	73,537	169	2,275	15	2,459
B2	59,744	168	2,295	85	2,548
B3	36,096	461	1,193	68	1,722
C1	28,749	224	1,455	320	1,999
C2	21,602	74	2,985	373	3,432
D	15,137	2,085	1,574	1,154	4,813
E	21,773	3,923	8,053	1,846	13,822
Total	$ 1,319,455	9,111	22,226	4,149	35,486

The total loan portfolio balance used for calculating the allowance for loan losses includes amounts related to irrevocable loans made and letters of credit granted, which are recorded in memorandum accounts.

The balance of the allowance for loan losses as of December 31, 2020 and 2019 is determined based on the balance of the portfolio at such dates.

The allowance for loan losses as of December 31, 2020 and 2019 covers 100% of non-performing interest.

The amount of the allowance for loan losses as of December 31, 2020 and 2019 includes the classification of loan granted in foreign currency valued at the exchange rate in effect on said dates.

As of December 31, 2020 and 2019, the allowance for loan losses represents 128.98% and 129.25%, respectively, of the non-performing loan portfolio.

The allowance for loan losses as of December 31, 2020 amounts to $48,348, which includes $41,804 of reserves calculated according to the methodologies approved by the Commission and $6,544 of additional reserves.

Additional reserves were informed to the Commission on April 14, 2020, in which the Bank mentions that it made said additional preventive estimates to cover risks that are not provided for in the different credit portfolio rating methodologies.

The origin of the estimates is an economic environment of global uncertainty derived from the COVID-19 pandemic with effects on the Mexican economy and consequently on the loan portfolio of companies and individuals, mainly. The methodology used to determine the additional reserves is based on the difference between the estimate of credit risk allowances, obtained at a consolidated level in accordance with International Financial Reporting Standard 9 (IFRS 9) and the reserves calculated under the methodology authorized by the Commission, taking into account a prospective scenario of the future potential situation at the date of creation, of a deep drop in the Gross Domestic Product (GDP) in 2020.

As of December 31, 2020 and 2019, the allowance for loan losses by type of portfolio is comprised as follows:

	2020	2019
Commercial loans:		
Commercial or business activity	$ 13,490	8,181
Financial entities	463	395
Government entities	731	535
	14,684	9,111
Consumer loans	28,861	22,226
Mortgage loans	4,803	4,149
Total loan allowance	$ 48,348	35,486

Changes in the allowance for loan losses-There is an analysis below of the change in the allowance for loan losses for years ended on December 31, 2020 and 2019:

	2020	2019
Balance at the beginning of the year	$ 35,486	31,882
Allowance for loan losses charged to the year earnings(1)	48,463	37,183
Applications, write-offs and others	(35,594)	(33,552)
Exchange rate fluctuations	(16)	(34)
Other charges(2)	9	7
Balance at the end of the year	$ 48,348	35,486

(1) As of December 31, 2020 and 2019, loan portfolio recoveries previously written off amounted to $1,335 and $1,467 and are presented under allowance for loan losses in the consolidated income statement, therefore, the net allowance for loan losses variation in the year results for the year ended on December 31, 2020 and 2019 is $47,128 and $35,716, respectively.
(2) Allowances for loan losses of securitized portfolio in trust 847 extinguished during the year and trusts 711 and 752 extinguished during 2019 and that were recognized by the Group at the time of repurchasing the portfolio.

(12) Premiums receivable-

As of December 31, 2020 and 2019, insurance premium receivable is as follows:

	2020	2019
Life	$ 3,917	3,615
Car	1,617	1,425
Property and casualty	1,469	1,150
Accident, health and pensions	525	907
	$ 7,528	7,097

As of December 31, 2020 and 2019, insurance premium receivable represents 5.19% and 5.41% of Seguros BBVA Bancomer's total assets.

(13) Securitization transactions-

Mortgage portfolio securitizations-

The Group has issued securitization certificates ("CB"), which have generally been formalized through the agreements mentioned in the next page.

Irrevocable Trusts created between BBVA Bancomer - Invex, Grupo Financiero for the Issuance of Fiduciary Securitization Certificates (Trust number 711, 752, 847 and 881).

– Transfer contract

This contract is entered into by and between BBVA Bancomer, S. A., (Transferor), Banco Invex, S. A. (Transferee) and Monex Casa de Bolsa, S. A. de C. V. (Common Representative) for the purpose of assigning, on the part of the Transferor, mortgage performing loan portfolio, to the Irrevocable Fiduciary Certificate Issuance Trust (the Stock Market Certificates), free of all encumbrance and without reservation or limitation of title, together with all related benefits, proceeds and accessories applicable. The Transferor is liable only for the declarations included in such contract, for which reason noncompliance with any of the declarations will only mean that the "Transferor" replacing one or more of the ineligible loans or reimbursing in cash the proportional part of the consideration; consequently, the Transferor does not assume any obligation regarding the mortgage loans. Furthermore, the consideration was fixed as the right to receive the total amount obtained in the placement of the Stock Market Certificates (SMCs), less the respective issuance costs.

– Irrevocable Trust Contract for the Issuance of securitized debt instruments

This contract is entered into by and between BBVA Bancomer, S. A., (Trustor and First Beneficiary), Banco Invex, S. A. (Trustee), and Monex Casa de Bolsa, S. A. de C. V. (Common Representative), which stipulates that the objective of the Trust is the acquisition of mortgage loans, free of all encumbrance and without any reservation or limitation of title, in terms of the Assignment Contract, the issuance of Securitized debt Certificates, which will have such mortgage loans as a source of payment and the placement of the Securitized debt Certificates among small investors; while the Trustee will have all those rights and obligations considered necessary to achieve such purpose. The same agreement provided that the initial value of collateral with respect to the loan backing the certificate, which amount is recorded for accounting purposes under "Benefits receivable on securitization transactions" for the Group.

– Loan Servicing Contract

This contract is entered into by and between the Bank (Administrator), Trustee and Common Representative. Under this contract, the Trustee contracted the Administrator to carry out the management and collection solely and exclusively in relation to the mortgage loan and any "foreclosed assets" that were transferred in the assignment contract.

Accordingly, to enable the Administrator to fulfill its obligations, the Trustee will pay a management fee to the Administrator equivalent to the amount resulting from multiplying the unpaid balance of the principal of the mortgage loans by the percentage stipulated and divided by 12.

During 2020, Irrevocable Trust 847 and, during 2019, Irrevocable Trusts 711 and 752 with Banco Invex, S. A., were extinguished early, so the loan portfolio of such Trusts was incorporated into the Institution's loan portfolio.

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Irrevocable Trust Number 989 created between BBVA Bancomer - CI Banco (formerly the Bank New York Mellon) for the Issuance of Securitization certificates

On June 17, 2013, the Commission through document 153/6937/2013 authorized the registration of the Bank with the National Securities Registry of the Program for the issuance of Securitization Certificates for up to the amount up to of $20,000 or the equivalent in UDIs for a five-year period as of the authorization date.

On June 21, 2013, the sixth issuance of mortgage portfolio securitization certificates was made for the amount of $4,413, based on the program for the issuance of securitization certificates authorized by the Commission.

– Assignment Contract

On that same date, the Bank, in its capacity as trustor and final trust beneficiary and CI Banco, S. A., Institución de Banca Múltiple (Trustee), in its capacity as trustee and through their Common Representative, executed irrevocable Trust No. F/00989 for the issuance of fiduciary securitization certificates to enable the Trustee to issue securitized certificates to be offered to investors through the Mexican Stock Exchange, Bolsa Mexicana de Valores, S. A. B. de C. V. ("BMV"), and which will be underwritten by mortgage loans.

– Irrevocable Trust Contract for the Issuance of Securitized Debt Certificates

This contract was executed by the Bank; (Trustor and final Trust Beneficiary) (Trustee), and Monex Casa de Bolsa, S. A. de C. V. (Common Representative), which stipulates that the purpose of the trust is to acquire mortgage loans, free from liens or encumbrances and without any ownership reserves or limitations pursuant to the terms of the Assignment Contract, to issue securitization certificates. These securitization certificates will have the aforementioned mortgage loans as their source of payment and to allow them to be offered to investors. Meanwhile, the trustee will have all the powers and obligations needed to attain this objective.

– Loan Servicing Contract

This contract was executed between the Bank (Administrator), Trustee and Joint Representative. Under the terms of the contract, the Trustee contracted the Administrator to perform administration and collection activities exclusively related to the mortgage loans and any foreclosed real property transferred through the Assignment Contract. Accordingly and to enable the Administrator to fulfill its obligations, the Trustee will pay an administration fee to the Administrator.

During 2020, Irrevocable Trust 989 entered into with CI Banco, S. A., Institución de Banca Múltiple, was early terminated.

The specific characteristics of each trust are detailed below:

	Trusts				
	711[(*)]	752[(*)]	847[(**)]	881	989(***)
Execution date of trust agreement	19-Dec-07	13-Mar-08	08-Dec-08	03-Aug-09	21-Jun-13
Number of assigned loans	2,943	1,587	18,766	15,101	10,830
Amount of assigned portfolio	$ 2,644	1,155	5,823	6,545	4,413
Securitized certificates issued	25,404,498	11,143,185	55,090,141	59,101,116	41,920,673
Face valor per securitized debt certificate	100 pesos	100 pesos	100 pesos	100 pesos	100 pesos
Amount of issuance of securitized debt certificates	$ 2,540	1,114	5,509	5,910	4,192
Series A1	$ -	-	-	562	-
Series A2	$ -	-	-	1,732	-
Series A3	$ -	-	-	3,616	-
Annual gross interest rate	9.05%	8.85%	9.91%	-	6.38%
Series A1	-	-	-	6.14%	-
Series A2	-	-	-	8.04%	-
Series A3	-	-	-	10.48%	-
Term of securitized debt certificates (years)	20.5	20.42	22	20.08	20
Value of certificates	$ 103	40	314	635	221
Loan to value %	3.9%	3.5%	5.4%	9.7%	5.0%
Total cash flow received after assignment	$ 2,507	1,091	5,475	5,733	4,129

As of December 31, 2019, amounts reported under “Benefits receivable in securitization transactions,” of $25, represent the amount of the outstanding trust certificate of non-consolidable securitization.

Summarized financial information of the non-consolidable securitization trust as of December 31, 2019 is shown below:

	847[(**)]
No. of Trust	2019
Assets	$ 685
Liabilities	631
Stockholders’ equity	54
Net result	$ 13

[(*)] Trusts 711 and 752 were extinguished during the month of May and October of 2019, respectively.
The assets incorporated into the Group were for $360, with a net effect on loss result of $12.
[(**)] Trust 847 was terminated during the month of June 2020. The assets incorporated to the Group amounted $619 with a net effect on loss results of $8.
[(***)] Trust 989 was terminated during 2020. The loan portfolio relating to this Trust was already included in the consolidated financial statements of the Group, so there was no accounting effect derived from such termination.

(14) Other accounts receivable, net-

Other accounts receivable as of December 31, 2020 and 2019 are as follows:

	2020	2019
Debtors from transactions pending to be settled[a]	$ 73,617	61,044
Loans to officers and employees [b]	14,761	14,466
Sundry debtors	6,332	7,272
Collateral provided through OTC derivatives [c]	10,483	9,737
Other	2,550	1,725
	107,743	94,244
Allowance for uncollectible accounts	(457)	(340)
	$ 107,286	93,904

[a] The receivables from transactions pending settlement as of December 31, 2020 and 2019, are as follows:

	2020	2019
Currency (note 4) [a1]	$ 52,055	27,055
Securities investment	19,832	32,681
Derivatives	1,730	1,263
Other	-	45
	$ 73,617	61,044

[a1] As of December 31, 2020 and 2019, the balance of foreign currency sales is presented net of $62,794 and $25,508, respectively, from currency purchases, whose balances are settled net.

[b] Corresponds to officials and employees belonging to BBVA Bancomer Operadora and BBVA Bancomer Servicios Administrativos who provide administrative services to the Group (see note 1).

[c] Receivables from collateral granted on OTC derivatives as of December 31, 2020 and 2019 is as follows:

	2020			2019
	Acquisition cost	Accrued interest	Carrying amount	Carrying amount
Collateral granted por derivatives:				
Banco Ve por Más, S. A. IBM	$ -	-	-	33
Banco Actinver, S. A. IBM	-	-	-	3
Banco Intercam, S. A. IBM	-	-	-	7
Banco Nacional de Comercio Exterior, S. N C.	89	-	89	92
Banco Santander, S. A. IBM	1,456	-	1,456	214
Banco JP Morgan, S. A. IBM	659	-	659	726
Casa de Bolsa Finamex, S. A. B. de C. V.	174	-	174	-
Banco Mercantil del Norte, S. A. IBM	2,368	-	2,368	-
Banco Monex, S. A. IBM	-	-	-	30
Banco Nacional de México, S. A.	742	3	745	545
Banco Scotiabank Inverlat, S. A. IBM	5	-	5	65
Barclays Bank PLC	195	-	195	170
BBVA Colombia S. A.	-	-	-	23
BNP Paribas NY Branch	1,300	-	1,300	1,163
HSBC México, S. A. IBM	849	-	849	-
Banco Bilbao Vizcaya Argentaria	1,319	-	1,319	5,461
Standard Chartered Bank	16	-	16	12
Morgan Stanley	80	-	80	41
Royal Bank of Scotland	-	-	-	13
Societe Generale	1,218	-	1,218	1,139
UBS. AG.	10	-	10	-
	$ 10,480	3	10,483	9,737

(15) Foreclosed assets, net-

Foreclosed assets account balance as of December 31, 2020 and 2019, are as follows:

	2020	2019
Buildings	$ 2,816	3,234
Land	1,394	1,471
Securities and rights	195	22
	4,405	4,727
Allowance for impairment of foreclosed assets	(3,088)	(3,289)
Total	$ 1,317	1,438

Changes in the reserve for decreases in value of foreclosed assets are summarized below, for the years ended December 31, 2020 and 2019:

	2020	2019
Initial balance	$ 3,289	3,453
Reserves created against "Other operating income"	277	465
Reserve applications for foreclosure sales and others	(478)	(629)
Ending balance	$ 3,088	3,289

Fully reserved foreclosed assets as of December 31, 2020 and 2019 are as follows:

	2020	2019
Buildings – Foreclosed value	$ 1,502	1,548
Land – Foreclosed value	1,270	1,315
Securities and rights – Foreclosed value	195	22
Total	$ 2,967	2,885

(16) Property, furniture and equipment, net-

Property, furniture and equipment as of December 31, 2020 and 2019 is as follows:

	2020	2019
Furniture and equipment	$ 18,250	16,941
Office buildings	19,526	19,494
Installation costs	18,676	18,361
Land	5,580	5,580
	62,032	60,376
Less- accumulated depreciation and amortization	(25,646)	(21,838)
Total	$ 36,386	38,538

For the year ended December 31, 2020, the amount of depreciation and amortization of the year was $2,381 and $1,817, respectively (2019: $3,268 and $1,238, respectively).

(17) Equity investments-

As of December 31, 2020 and 2019, investments in associates were valued based on equity method, while other permanent investments were recorded at their acquisition cost. The most significant of these investments are detailed below:

	Interest			
Entity	2020	2019	2020	2019
FideicomisoNo.1729INVEX - Disposal of Portfolio[1]	32.25%	32.25%	$ 537	252
Compañía Mexicana de Procesamiento, S.A. de C.V.	50.00%	50.00%	194	181
Servicios Electrónicos Globales, S.A. de C.V.	46.14%	46.14%	264	228
Fideicomiso FIMPE	28.50%	28.50%	36	50
Investment Fund	Diverse	Diverse	194	228
Other investments recognized at cost	Diverse	Diverse	108	211
Total			$ 1,333	1,150

Investment in shares of associated companies was determined in some cases, based on the non-audited financial information, which is adjusted should there were differences, once it is available.

For years ended on December 31, 2020 and 2019, dividends received from associated companies and other permanent investments amounted to $106 and $109, respectively. Recognized in the consolidated income statement under “Other operating income”.

For the years ended December 31, 2020 and 2019, participation in results of associated companies amounted to $69 and $53, respectively.

(1) In October 2013, the Trust number 1729, Invex Portfolio Allocation (Trust number 1729) was constituted by the banks that had a distressed factoring portfolio with “Corporación GEO”, acting as trustee; Banco Invex, S. A., the trustors contributed the collection rights and cash for expenses. On the other hand, “Corporación GEO” exchanged the collection rights inherent to the trust for real estate located in different parts of Mexico.

The value of the Group’s contribution and the movement of its reserve, in Trust 1729 as of December 31, 2020 and 2019 is shown below:

Item	2020	2019
Total contributions	$ 1,505	1,243
Associated reserve	(485)	(485)
Net value	1,020	758
Allowance for impairment of foreclosed assets	(483)	(506)
Net value	$ 537	252

As a result of successful recoveries by the Trust, the Group recorded in the year ended December 31, 2020 reserve release on the participation of Trust number 1729, which amounted to $23 (reserve release in 2019 for $252). In July 2020, the Group increased its investment by $262 for the purchase of the assignment of rights of trust 1729.

(18) Other assets-

The balance of deferred charges, advance payments and intangibles as of December 31, 2020 and 2019 is comprised as follows:

	2020	2019
Goodwill	$ 8,869	8,869
Software[1] net	4,655	4,743
Prepaid expenses	2,333	2,617
Income tax installments	8,197	-
Total	$ 24,054	16,229

As of December 31, 2020 and 2019, goodwill is as follows:

BBVA Bancomer, S. A.	$ 5,431
Seguros BBVA Bancomer, S. A. de C. V.	3,295
Pensiones BBVA Bancomer, S. A. de C. V.	143
Total	$ 8,869

(1) The amortization of software is determined using the straight-line method, as of the month following that of its purchase, by applying the 20% rate.

As of December 31, 2020 and 2019, the amounts of historical cost and software amortization are detailed below:

	2020	2019
Software investment	$ 20,664	19,105
Cumulative amortization	(16,009)	(14,362)
Total	$ 4,655	4,743

For the years ended December 31, 2020 and 2019, the amounts of amortization recognized in the results of the year are $1,792 and $1,465, respectively.

(19) Deposits funding -

As of December 31, 2020 and 2019, traditional deposit taking is as follows:

	2020	2019
On demand deposits:		
On demand deposits	$1,083,733	922,792
Time deposits:		
PRLV	208,703	206,533
Time deposits	29,545	42,385
Debt securities issued [a]	84,052	85,806
Inactive deposits global account	4,956	4,507
Total	$1,410,989	1,262,023

(a) Negotiable instruments issued are detailed in next page.

As of December 31, 2020, the average rates in Mexican currency of on demand deposits (unaudited) based on their short and long-term enforceability are 0.77% and 3.54% respectively, (as of December 31, 2019 short- and long-term are 1.36% and 6.35%, respectively, unaudited).

Description of the principal programs

As of December 31, 2020 and 2019, the Group has placed short-term and long-term debt securities, composed as follows:

	2020			2019		
	Amount	Average term (days)	Average Rate	Amount	Average term (days)	Average Rate
Long term Bank bonds	$ 700	952	5.86%	$ 6,028	1,211	7.70%
Short term Bank bonds	9,109	389	4.09%	18,620	357	6.64%
Securitization certificates MXP	32,063	988	5.18%	25,166	2,111	8.11%
Securitization certificates UDIs	15,101	2,016	4.36%	21,705	5,355	4.03%
Securitization certificates USD	1,993	757	0.70%	-	-	-
Senior notes	25,086	2,740	3.13%	14,287	3,653	4.38%
Total	$ 84,052			$ 85,806		

Liquidity ratio (unaudited) -The provisions of the “Regime of admission of liabilities and investment for transactions in foreign currency” issued by the Central Bank for financial institutions establishes a mechanism for determining the liquidity coefficient for liabilities denominated in foreign currency.

According to afore mentioned regime, as of December 31, 2020 and 2019, the Bank did not generate an additional liquidity requirement. As of December 31, 2020 and 2019, the investment in liquid assets amounted to USD $6,925 and USD $2,260 million, having then a surplus of USD $6,919 and USD $2,260 million, respectively.

(20) Interbank loans and loans from other entities-

As of December 31, 2020 and 2019, interbank loans and loans from other entities are as follows:

	Mexican pesos		Rate in Average %		Average Term (days)	
	2020	2019	2020	2019	2020	2019
On demand						
Banks	$ -	7,414	-	7.25	-	2
Loans to other entities:						
Short term:						
Trust created for Agriculture (FIRA)	5,776	6,058	5.39	7.69	179	213
Long term:						
FIRA	8,433	7,063	5.59	7.57	3	5
México low income mortgage program_(FOVI)	44	61	8.74	7.75	25	25
	8,477	7,124				

	USD (MXP Equivalent)		Rate in Average %		Average Term (days)	
	2020	2019	2020	2019	2020	2019
Loans to other entities:						
Short term:						
FIRA	1,203	982	1.25	2.78	167	211
Instituto de Crédito Oficial (ICO)	6	-	0.96	-	182	-
	1,209	982				
Long term:						
ICO	1,730	52	0.96	1.50	2	2
FIRA	669	388	1.33	3.02	3	5
	2,399	440				

	Total Amounts	
	2020	2019
On demand	$ -	7,414
Short term	6,985	7,040
Long term	10,876	7,564
	$ 17,861	22,018

The Group has a liquidity line of credit in the Central Bank of an amount equivalent to up to the DRM (see note 4). Such line of credit amounted to $33,903 and $40,231 as of December 31, 2020 and 2019, without considering interest in both years. As of December 31, 2020 and 2019, the Group did not use such credit facility.

(21) Technical reserves -

As of December 31, 2020 and 2019, technical reserves are as follows:

	2020	2019
Seguros BBVA Bancomer		
Reserve for current risks:		
Direct life insurance	$ 109,992	91,085
Direct accidents and illness	89	71
Property and casualty insurance	3,886	3,508
In the next page	$ 113,967	94,664

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	2020	2019
from the previous sheet	$ 113,967	94,664
Outstanding obligations:		
Claims incurred	2,083	1,761
Claims incurred and paid in terms	741	893
Past due endowments to be paid	609	481
Claims incurred but not reported	1,294	821
	4,727	3,956
Catastrophic risk reserve	6,992	6,222
	125,686	104,842
Premiums in deposit:	101	145
(Total) reserves Seguros BBVA Bancomer	$ 125,787	104,987
Seguros Salud		
Reserve for current risks:	$ 71	59
Reserve for current risks to be fulfilled:		
Claims incurred	43	29
Claims incurred but not reported	171	149
	214	178
	285	237
Premiums in deposit:	1	1
Total reserves Seguros Salud	$ 286	238

		2020	2019
Pensiones BBVA Bancomer			
Reserve for current risks:			
Mathematical reserves for Basic Benefits:			
Labor Risk:			
Permanent disability	$	15,309	13,643
Death		9,032	8,679
Life and disability:			
Disability		23,397	22,630
Death		49,322	46,678
Retirement Severance:			
Retirement		12,170	11,055
Mathematical reserves for additional benefits:			
Labor Risk:			
Permanent disability		17	18
Death		14	15
Life and disability:			
Disability		42	43
Death		64	66
Outstanding claims		254	241
Contingent reserve		2,174	2,043
Reserves for investment fluctuations		642	642
		112,437	105,753
Premiums in deposit		40	170
Total reserves Pensiones BBVA Bancomer		112,477	105,923
Total Seguros BBVA Bancomer		125,787	104,987
Total Seguros Salud		286	238
Total technical reserves	$	238,550	211,148

(22) Labor obligations-

The Group has liabilities for labor obligations arising from employee benefits, resulting from post-employment benefits, which consider the payment of premiums for years of service upon retirement, post-retirement obligations for payment of integrated medical services to retirees and their economic dependents, life insurance and sports club benefits. Aforementioned benefits depends of each subsidiary in which the employee are hired.

Additional post-retirement benefit

On April 1, 2019, an additional benefit came into effect for active employees, who are enrolled within the defined contribution plan, known as “Plan porvenir,” which consists of the employee reaching 55 years of age with 35 years of service in the Group or 60 years of age and at least 10 years of service in the Group, and who make voluntary contributions to the plan, will be entitled to receive the equivalent of a percentage of their contributions (not including interest), based on years of service with a preset limit.

The limit of said additional benefit will have an annual increase from the first business day of February of the immediately following year in question, in the same percentage of the increase as the National Consumer Price Index (for its acronym in Spanish "INPC" Índice Nacional de Precios al Consumidor).

The amount of such labor liabilities is determined based on calculations performed by independent actuaries using the projected unit credit method and Plan conformity with the methodology established in Mexican FRS D-3. Plan assets are made through an irrevocable trust.

Below is the breakdown of the net liabilities for defined benefits as of December 31, 2020 and 2019, and it is included under "Sundry creditors and other accounts payable."

	2020						
		Other retirement benefits					
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Plan Porvenir Bonus	Legal compensation	Total
As of December 31, 2020, information on defined benefit net asset (liability) is as follows:							
Defined benefit obligations	$ (13,639)	(37,086)	(1,618)	(136)	(411)	(1,351)	(54,241)
Plan assets	13,103	35,445	1,638	-	396	-	50,582
Net defined benefit (liability) asset	$ (536)	(1,641)	20	(136)	(15)	(1,351)	(3,659)
As of December 31, 2020, defined benefit obligations are as follows:							
Initial balance	$11,777	32,515	1,421	120	373	1,134	47,340
Labor cost of service	96	499	4	2	16	143	760
Financial cost	1,029	2,804	117	11	33	93	4,087
Actuarial losses and (gains) generated in the period	2,098	2,339	106	9	4	173	4,729
Benefits paid	(1,341)	(878)	(29)	(5)	(10)	(173)	(2,436)
Early reduction of obligations	(20)	(193)	(1)	(1)	(5)	(19)	(239)
Defined benefit obligations at year's end	$ 13,639	37,086	1,618	136	411	1,351	54,241

	2020						
		Other retirement benefits					
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Plan Porvenir Bonus	Legal compensation	Total
As of December 31, 2020, Plan Assets ("PA") are as follows:							
PA the beginning of the year	$ 9,964	31,843	1,865	-	373	-	44,045
Contributions made by the entity	1,982	493	82	-	14	-	2,571
Expected return of PA	846	2,883	166	-	35	-	3,930
Actuarial earnings generated in the period	641	1,557	90	-	(16)	-	2,272
Benefits paid	(1,319)	(878)	(29)	-	(10)	-	(2,236)
Restricted investments							
Transfers between plans	989	(453)	(536)	-	-	-	-
PA the end of the year	$13,103	35,445	1,638	-	396	-	50,582

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	2020						
		Other retirement benefits					
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Plan Porvenir Bonus	Legal compensation	Total
Net asset (liability) for defined benefits at the beginning of the year	$ (1,813)	(672)	444	(120)	-	(1,134)	(3,295)
Service cost	(76)	(306)	(3)	(1)	(11)	(124)	(521)
Net interest	(183)	79	49	(11)	2	(93)	(157)
Contributions to the fund	1,982	493	82	-	14	-	2,571
Payments made	22	-	-	5	-	173	200
Transfers of the fund	989	(453)	(536)	-	-	-	-
Actuarial gains (losses) for the period recognized in OCI	(1,457)	(782)	(16)	(9)	(20)	(173)	(2,457)
Net asset (liability) for defined benefits at the end of the year	$ (536)	(1,641)	20	(136)	(15)	(1,351)	(3,659)

	2020						
		Other retirement benefits					
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Plan Porvenir Bonus	Legal compensation	Total
As of December 31, 2020, the (cost) income of defined benefits for the period are as follows:							
Labor cost of service:							
Current service	$ (96)	(499)	(4)	(2)	(16)	(143)	(760)
Past services due to early reduction	20	193	1	1	5	19	239
Net interest on net defined benefit (liability) asset:							
Interest costs of defined benefit obligations	(1,029)	(2,804)	(117)	(11)	(33)	(93)	(4,087)
PA interest income	846	2,883	166	-	35	-	3,930
Recycling of net asset (liability) remeasurement for defined benefit to be recognized in OCI:							
Gains (losses) of defined benefit obligations	(317)	(438)	35	-	-	(108)	(828)
Gains (losses) of PA	26	94	(6)	-	-	-	114
Net Income (Cost) for the period	(550)	(571)	75	(12)	(9)	(325)	(1,392)

	2020						
		Other retirement benefits					
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Plan Porvenir Bonus	Legal compensation	Total
As of December 31, 2020, remeasurements of net asset (liability) for defined benefit recognized in OCI are as follows:							
Reconciliation of actuarial (loss) gains:							
Initial balance of gains (losses) on the obligation	$ (3,528)	(6,834)	292	(6)	(48)	(579)	(10,703)
(Loss) gains on the obligation	(2,098)	(2,339)	(106)	(9)	(4)	(173)	(4,729)
Recycling of remeasurements in the obligation	317	438	(35)	-	-	108	828
Ending balance of (losses) gains on the obligation	(5,309)	(8,735)	151	(15)	(52)	(644)	(14,604)
Initial balance of (losses) gains on return of assets	281	808	(3)	-	-	(6)	1,080
Gains (losses) on the return of the PA	641	1,557	90	-	(16)	-	2,272
Recycling of remeasurements in the return of the PA	(26)	(94)	6	-	-	-	(114)
Ending balance of (losses) gains on the obligation	896	2,271	93	-	(16)	(6)	3,238
Ending balance of net (losses) gains recognized in OCI	$ (4,413)	(6,464)	244	(15)	(68)	(650)	(11,366)

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	2019						
		Other retirement benefits					
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Plan Porvenir Bonus	Legal compensation	Total
As of December 31, 2019, information on defined benefit net asset (liability) is as follows:							
Defined benefit obligations	$ (11,777)	(32,515)	(1,421)	(120)	(373)	(1,134)	(47,340)
Plan assets	9,964	31,843	1,865	-	373		44,045
Net defined benefit (liability) asset	$ (1,813)	(672)	444	(120)	-	(1,134)	(3,295)
As of December 31, 2019, defined benefit obligations are as follows:							
Initial balance	$ 9,982	24,290	1,109	86	-	923	36,390
Labor cost of service	83	430	6	2	-	112	633
Financial cost	991	2,488	114	9	1	85	3,688
Actuarial losses and (gains) generated in the period	1,749	6,116	207	27	48	198	8,345
Benefits paid	(1,025)	(809)	(16)	(4)	-	(153)	(2,007)
Plan modifications	-	-	1	-	-	(1)	-
Early settlement of obligations	(3)	-	-	-	-	(30)	(33)
Adoption of plan	-	-	-	-	324	-	324
Defined benefit obligations at year's end	$ 11,777	32,515	1,421	120	373	1,134	47,340

	2019						
		Other retirement benefits					
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Plan Porvenir Bonus	Legal compensation	Total
As of December 31, 2019, Plan Assets ("PA") are as follows:							
PA at the beginning of the year	$ 7,503	25,243	2,089	-	-	-	34,835
Contributions made by the entity	620	-	-	-	372	-	992
Expected return of PA	748	2,591	177	-	1	-	3,517
Actuarial earnings generated in the period	1,555	4,674	314	-	-	-	6,543
Benefits paid	(1,013)	(809)	(16)	-	-	-	(1,838)
Restricted investments	-	(4)	-	-	-	-	(4)
Transfers between plans	551	148	(699)	-	-	-	-
PA at the end of the year	$ 9,964	31,843	1,865	-	373	-	44,045

	2019						
		Other retirement benefits					
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Plan Porvenir Bonus	Legal compensation	Total
Net asset (liability) for defined benefits at the beginning of the year	$ (2,479)	953	980	(86)	-	(923)	(1,555)
Service cost	(80)	(430)	(7)	(2)	-	(81)	(600)
Net interest	(243)	103	63	(9)	-	(85)	(171)
Contributions to the fund	620	-	-	-	372	-	992
Payments made	12	-	-	4	-	153	169
Restricted investments	-	(4)	-	-	-	-	(4)
Adoption of plan	-	-	-	-	(324)	-	(324)
Transfers of the fund	551	148	(699)	-	-	-	-
Actuarial gains (losses) for the period recognized in OCI	(194)	(1,442)	107	(27)	(48)	(198)	(1,802)
Net asset (liability) for defined benefits at the end of the year	$ (1,813)	(672)	444	(120)-	-	(1,134)	(3,295)

	2019						
		Other retirement benefits					
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Plan Porvenir Bonus	Legal compensation	Total
As of December 31, 2019, the (cost) income of defined benefits for the period are as follows:							
Labor cost of service:							
Current service	$ (83)	(430)	(6)	(2)	-	(112)	(633)
Past services due to plan modifications	-	-	(1)	-	-	1	-
Past services by plan adoption	-	-	-	-	(7)	-	(7)
Early settlement of obligations	3	-	-	-	-	30	33
Net interest on net defined benefit (liability) asset:							
Interest costs of defined benefit obligations	(991)	(2,488)	(114)	(9)	(1)	(85)	(3,688)
PA interest income	748	2,591	177	-	1	-	3,517
Recycling of net asset (liability) remeasurement for defined benefit to be recognized in OCI:							
Gains (losses) of defined benefit obligations	(156)	(71)	44	3	-	(70)	(250)
Gains (losses) of PA	(117)	(397)	(28)	-	-	-	(542)
Net Income (Cost) for the period	(596)	(795)	72	(8)	(7)	(236)	(1,570)

	2019						
		Other retirement benefits					
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Plan Porvenir Bonus	Legal compensation	Total
As of December 31, 2019, remeasurements of net asset (liability) for defined benefit recognized in ORI are as follows:							
Reconciliation of actuarial (loss) gains:							
Initial balance of gains (losses) on the obligation	$ (1,935)	(789)	543	24	-	(451)	(2,608)
(Loss) gains on the obligation	(1,749)	(6,116)	(207)	(27)	(48)	(198)	(8,345)
Recycling of remeasurements in the obligation	156	71	(44)	(3)	-	70	250
Ending balance of (losses) gains on the obligation	(3,528)	(6,834)	292	(6)	(48)	(579)	(10,703)
Initial balance of (losses) gains on return of assets	(1.391)	(4,263)	(345)	-	-	(6)	(6,005)
Gains (losses) on the return of the PA	1,555	4,674	314	-	-	-	6,543
Recycling of remeasurements in the return of the PA	117	397	28	-	-	-	542
Ending balance of (losses) gains on the obligation	281	808	(3)	-	-	(6)	1,080
Ending balance of net (losses) gains recognized in OCI	$ (3,247)	(6,026)	289	(6)	(48)	(585)	(9,623)

As of December 31, 2020, and 2019, the legal compensation plan and the sports club plan for retirees have no assets for financing the obligations for defined benefits.

As of December 31, 2020, and 2019, plan assets were invested in government securities. Likewise, expected income of the plan assets to those dates was estimated in the amount of $3,930 and $3,517 of surplus, respectively, real profit the same dates in the amount of $6,202 and $10,060 of surplus, respectively.

The main actuarial hypotheses used in 2020 and 2019 are shown below:

	2020	2019
Average remaining employee labor life (years)	10.91	9.80
Nominal discount rate used to estimate the obligation's present value	7.43%	9.04%
Expected return rate for plan assets	7.43%	9.04%
Salary increase rate	3.00%	4.75%
Pension increase rate	2.13%	2.13%
Medical services increase rate	7.00%	7.00%
Nominal increase rate on future salaries	3.75%	3.75%
Long term inflation rate	3.75%	3.75%

(23) Subordinated debt -

Subordinated obligations as of December 31, 2020 and 2019, are comprised as follows:

	2020	2019
USD 1,000 million junior notes, issued in April 2010, at interest rate of 7.25%, payable semiannually from October 22, 2010, due on April 22, 2020; the number of outstanding securities is 1,000,000, with a nominal value of USD 1,000 each.	$ -	14,150
USD 1,250 million senior notes, issued in March 2011, at interest rate of 6.50%, payable semiannually from September 10, 2011, due on March 10, 2021; the number of outstanding securities is 1,250,000, with a nominal value of USD 1,000 each during 2019, capital amortizations of USD 500 million were made, and so, as of December 31, 2020 and 2019, the capital amounts to USD 750 million.	14,933	14,150
USD 1,000 million senior notes, issued in July 2012, at interest rate of 6.75% and an extension of the issuance of USD 500 million in September 2012, at interest rate of 6.75%, payable semiannually from March 30, 2013, due on September 30, 2022; the number of outstanding securities is 1,500,000, with a nominal value of USD 1,000 each	29,863	28,296
USD 200 million senior notes, issued in November 2014, at interest rate of 5.35%, payable semiannually from May 12, 2015, due on November 12, 2029; the number of outstanding securities is 200,000, with a nominal value of USD 1,000 each.	3,982	3,773
USD 1,000 million senior notes, issued in January 2018, at interest rate of 5.125%, payable semiannually from July 17, 2018, due on January 18, 2033; the number of outstanding securities is 1,000,000, with a nominal value of USD 1,000 each.	19,909	18,864
USD 750 million senior notes, issued in September 2019, at interest rate of 5.875% payable semiannually from March 13, 2020, due on September 13, 2034; the number of outstanding securities is 750,000 with a nominal value of USD 1,000 each.	14,931	14,148
Unpaid accrued interest	1,563	1,680
	$ 85,181	95,061

(24) Related parties-

Following provisions of Criteria C-3 "Related parties" issued by the Commission, significant related parties' balances/transactions are described below:

		2020	2019
Banco Bilbao Vizcaya Argentaria, S.A.:			
Derivative financial instruments [1]	$	(1,143)	(13,945)
Repurchase/resell agreements payable [1]		(2,480)	(1,865)
Aplica Tecnología Avanzada, S. A. de C. V.:			
Deposit taking [1]	$	224	726
Income:			
Interest [2]	$	8	7
Administrative services fees [2]	$	38	36
Expense:			
Processing and systems development [2]	$	2,799	2,490
BBVA Leasing México, S. A. de C. V. (Before "Facileasing, S. A. de C. V."):			
Deposits [1]	$	1,980	537
Loan portfolio [1]		4,972	4,777
Income:			
Interest [2]		220	288
Administrative services fees [2]		71	85

[1] Balances of accounts payable/receivable as of December 31, 2020 and 2019, respectively.
[2] It relates to the income or (expense) recorded in the income statement for years ended on December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, there are other related party transactions regarded as non-material that have not been disclosed.

(25) Income tax (ISR from its Spanish acronym)-

The current Income Tax Law provides for an income tax rate of 30%.

Main items affecting the Group taxable income were the annual inflation adjustment, accruals, the market valuation results, the pre-maturity of derivate financial instruments, the differences between the accounting and tax depreciation and amortization and the deductible written-off portfolio and the application of discounts.

A reconciliation for the years ended December 31, 2020 and 2019, of the income tax rate and the effective tax rates, as a percentage of the income before interest tax, is as shown in the next page.

	2020		2019	
	Tax	Rate	Tax	Rate
Statutory rate	$ 18,110	30.00%	$ 23,402	30.00%
Increase (reduction from):				
Non-deductible expenses	653	1.08%	556	0.71%
Effects of annual inflation	(2,512)	(4.16%)	(2,002)	(2.57%)
Net tax payments agreed with the authorities during the fiscal year	1,133	1.88%	(894)	(1.15%)
Other	192	0.32%	(4)	(0.01%)
Effective rate	$ 17,576	29.12%	$ 21,058	27.00%

Recoverable Tax on Assets (IMPAC from its Spanish acronym):

As of December 31, 2020 and 2019, the Group has an IMPAC of $198 and $275, respectively.

Other tax issues:

As of December 31, 2020 and 2019, balances are as follows:

	2020	2019
Net after-tax profit account	$ 29,380	24,099
Capital contributions account	222,983	215,838

The Group has recognized a deferred income tax resulting from the temporary differences arising from the comparison of accounting and taxable values of the assets and liabilities:

	2020		2019		
	Temporary differences		Temporary differences		Change
	Base	Deferred Income tax	Base	Deferred Income tax	2020
Deferred tax assets:					
Allowance for loan losses (not deducted)	$ 59,664	17,899	47,923	14,377	3,522
Fees and interest charged in advance	7,954	2,386	8,255	2,476	(90)
Provisions	9,905	2,972	10,644	3,193	(221)
Other assets	4,556	1,367	3,364	1,011	356
Foreclosed assets	4,276	1,283	4,478	1,343	(60)
Valuation of available-for-sale securities (capital)	8	2	122	37	(35)
Valuation of hedging derivates (capital)	137	41	161	48	(7)
Pension reserve	2,892	867	1,744	523	344
Market valuation (results)	-	-	4,523	1,357	(1,357)
Total assets	89,392	26,817	81,214	24,365	2,452
Deferred tax liabilities:					
Market valuation (results)	1,097	329	-	-	329
Valuation of available-for-sale securities (capital)	4,028	1,208	-	-	1,208
Early maturity of derivative financial transactions	549	165	5,589	1,677	(1,512)
Pension reserve	976	293	676	203	90
Other liabilities	1,999	599	(150)	(45)	644
Total liabilities	8,649	2,594	6,115	1,835	759
Net deferred assets	$ 80,743	24,223	76,099	22,530	1,693
Variation in results for the year					$ 2,860
Net charge in OCI					$ (1,167)

In assessing the recoverability of deferred tax assets, Management considers whether it is more likely than not that some portion or all the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Other considerations:

In accordance with Mexican tax law, the tax authorities are empowered to examine transactions carried out during the five years prior to the most recent income tax return filed.

In accordance with the Income Tax Law, companies carrying out transactions with the related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's length transactions.

(26) Stockholders' equity

(a) Structure of capital stock–

The capital stock of the Group as of December 31, 2020 and 2019 is as follows:

	Number of shares at Par Value of MXP$0.11		
	Capital stock	Capital stock Unsubscribed	Paid-in
Series "B"	4,605,999,999	(60,462,657)	4,545,537,342
Series "F"	4,794,000,001	(62,930,521)	4,731,069,480
Total	9,400,000,000	(123,393,178)	9,276,606,822

	Historical amount		
	Capital stock	Issued Shares (Unsubscribed)	Paid-in
Series "B"	$ 507	(7)	500
Series "F"	527	(7)	520
Subtotal	$ 1,034	(14)	1,020
Reordering of capital updates			15,191
Adjustment to pesos as of December 2007			2,725
2009 capital decrease and increase, net...			(9,137)
			$ 9,799

On February 28, 2020, the General Ordinary Shareholders' Meeting authorized the distribution of dividends up to $39,901, from the "Results from previous years" account, at a rate of $1.177060773353535 pesos per share, which were paid to shareholders on March 25, 2020, for $10,919, see section (c).

On February 28, 2019, the General Ordinary Shareholders' Meeting authorized the distribution of dividends up to $36,846, from the "Result from previous years" account, at a rate of $3.97195663317507 pesos per share, which were paid to shareholders on March 21, June 13, September 12 and December 13, 2019, for $10,517, $8,276, $7,876 and $10,177, respectively.

(b) Comprehensive income-

Comprehensive income for years ended on December 31, 2020 and 2019, amounted to $44,131 and $58,303, net of deferred taxes, respectively, such amount is shown in the consolidated statement of changes in stockholders' equity and represents the result of the total activity of the Group and its subsidiaries during the year and includes the items according to the applicable Accounting Criteria, recorded directly in stockholders' equity (result from valuation of securities available for sale and result from valuation of cash flow hedging, corresponding to one of the above mentioned items and remeasurements for employees' defined benefits).

(c) Stockholders' equity restrictions -

Series "F" shares represent, at all times, no less than 51% of the capital stock and may only be purchased, directly or indirectly, by a Foreign Financial Institution, as defined in the Law. Series "B" shares may represent up to 49% of the capital stock, shall be subscription free and shall be governed by article 74 of said Law.

At no time, foreign business entities that exercise authority functions, according to article 24 of the Law, may participate in any way in the Group's capital. Domestic financial entities, even those that form part of the Financial Group, may not participate either, except when acting as institutional investors in terms of article 27 of the Law.

The Group's net income is subject to the legal provision requiring 5% of profits for each period to be set aside to increase the legal reserve until it reaches 20% of the capital stock. As of December 31, 2020 and 2019, the Group has complied with the required reserve amount with respect to the historic paid-in share capital. This reserve may not be distributed amongst shareholders while the Group remains in existence, except as dividends in shares.

In the event of profits distribution not subject to taxes applicable to the Group, such tax must be paid upon distribution of the dividend. Therefore, the Group must consider the profits subject to each rate.

Due to the Covid-19 pandemic in Mexico and worldwide, on March 31, 2020, the Commission recommended banking institutions in Mexico to refrain from agreeing to pay shareholders dividends from the Multiple Banking Institution, as well as any mechanism or action that involves a transfer of economic benefits to them or assuming the irrevocable commitment to pay them with respect to the 2019 and 2020 fiscal years, including the distribution of reserves, or carry out rewards of shares or any other mechanism aimed at rewarding shareholders. If the relevant Multiple Banking Institution is member of a financial group, the measure will include the holding company of the group to which it belongs, as well as the financial entities or companies that are part of said group. Consequently, the Institution has not declared nor paid all authorized dividends on February 28, 2020, with a remaining amount, of $28,982.

(d) Bank's capitalization index (unaudited)-

Capitalization rules establish requirements in relation to specific levels of net capital, as a percentage of the assets subject to market risk, credit and operational risks; however, for purposes of the net capital calculation, deferred taxes shall represent a maximum of 10% of the basic capital.

Under the standard method, transactions are classified in twelve different groups, according to the counterparty, which must be weighted pursuant to the corresponding risk degree.

In addition, under this method, a greater weight is allocated to the past due portfolio (115% and 150%) and the mortgage loans shall have a factor of 50% to 100%, depending on the level of the down payment and the related guarantees, which serve to increase the down payment percentage and to allocate a better weight.

Capitalization for operational risk

In order to calculate the capital requirement for exposure to operational risk, the Group must use the following:

- The Group is using the Alternative Standard Method authorized by the Commission on November 27, 2015.

The capital requirement for alternative standard method must be implemented within a term of three years and it must consider the weight according to the business unit.

The amendments to the capitalization rules issued in December 2014, in effect as of October 2015, are detailed below:

Capitalization for market risk

According to amendments to the capitalization rule in effect as of October 2016, the applicable weights for reports RC-01, RC-02, RC-03 and RC-04 were modified. In addition, in the RC on share positions (RC-05) weights for the general market risk are changing. The portfolio diversification calculation is omitted, using instead 8% of the market specific risk and, finally, the liquidation risk calculation is suppressed.

A new RC was added to the market requirements, RC-18, which captures the effect of Gamma and Vega on the option positions and is reflected in the total market risk at the end of December 2019. This requirement is additional to requirements generated in the other RCs.

Capitalization for credit risk

In relation to credit risk, changes to the capitalization rule caused the counterparty risk to be split in counterparty and related party credit risk and credit risk for credit valuation adjustment and with related parties and exposure to non-compliance fund in bank clearing houses.

The Bank's capitalization index as of December 31, 2020 amounted to 17.51% of total risk (market, credit and operational) and 26.38% of credit risk, which are 5.51% and 14.47% points above the minimum required, including in addition the conservation the equity are 2.5% and 1.5% of supplementary for the risk systematic.

The amount of net capital, made up of basic and supplementary capital, is broken down in the next page (shown figures may differ in their presentation in the consolidated financial statements).

Basic capital

Item	Amount
Stockholders' equity, without cumulative translation adjustment	$ 241,757
Subordinated debt instruments under securitization programs	(137)
Deductions of investments in shares of financial entities	(539)
Organization expenses and other intangibles	(5,086)
Deferred taxes for tax losses	(591)
Total	$ 235,404

The main features of the obligations are shown below:

Item	Amount	Maturity date	Calculation percentage	Weighted average (basic capital)
Non-convertible computable in basic capital:				
Computable capitalization instruments	$ 29,863	30/09/2022	20%	$ 5,973

Supplementary capital

Item	Amount
Obligations and capitalization instruments	$ 44,795
Allowance for loan losses	6,135
Total	$ 50,930
Net capital	$ 286,334

Item	Amount	Maturity date	Calculation percentage	Weighted average (basic capital)
Computable capitalization instruments	$ 14,933	10/03/2021	20%	$ 2,987
Computable capitalization instruments	3,982	12/112029	100%	3,982
Computable capitalization instruments	19,909	18/01/2030	100%	19,909
Computable capitalization instruments	14,931	13/09/2034	100%	14,931
Total	$ 53,755			$ 41,809

Assets on risk are comprised as shown in the next page.

– *Assets subject to market risk:*

Item		Risk-weighted assets	Capital requirement
Transactions in Mexican currency, with nominal rate	$	340,241	27,219
Transactions in Mexican currency, with actual rate or denominated in UDIS		12,497	1,000
Rate of return with respect to the general minimum wage		5,462	437
Interest rate in transactions in foreign currency with nominal rate		39,721	3,178
Positions in UDIs or with return referred to the INPC		44	3
Transactions with respect to the general minimum wage		381	31
Currency positions with return indexed at exchange rate		9,733	778
Positions in shares or with return indexed to the price of a share or group of shares		15,750	1,260
Gamma		3,497	280
Vega		285	23
Spread		5,838	467
Total market risk	$	433,449	34,676

– *Assets subject to credit risk:*

Item	Risk weighted assets	Capital requirement
Weighted at 10%	$ 1,837	147
Weighted at 11.5%	1,886	151
Weighted at 20%	22,731	1,739
Weighted at 50%	4,164	333
Weighted at 100%	365,656	29,252
Weighted at 115%	7,703	616
Weighted at 120%	1,184	95
Weighted at 150%	522	42
Weighted at 1250%	909	73
Accounting Facilities COVID (1)	30,915	2,473
Credit Cards / E and C / Mortgages Internal methodology	593,328	47,466
CVA	24,991	1,999
ECC	24	2
Counterparty	19,238	1,539
Related	11,018	881
Repurchase agreements and Spot	175	14
Total credit risk	$ 1,085,281	86,822
Operational risk	$ 116,131	9,290

(1)New loan origination from September 2020.

Capital management - The Group has the required staff, processes and systems for the proper identification, measurement, oversight, control, and mitigation of the risks to which the I Group is exposed; for further detail and explanation, see note 34.

In turn, the periodic processes to guarantee that financial reports are disclosed and reflect the risks to which the Group is exposed are defined and established.

Stress testing are performed annually; these are required by the Commission to assess capital sufficiency of the Group in order to continue acting as intermediary of resources and granting loans under different scenarios.

In addition, there is an analysis comprising liquidity crisis scenarios. These stress scenarios estimate the impact on the auto-financing ratio and the capacity of explicit assets available to cover maturities in a horizon of 12 months, which allows to know the Group survival horizon. Results show a satisfactory resistance of the Institution to liquidity crisis.

On the other hand, the Group has different management levers to be actioned should it faced different stress scenarios that could impair its solvency position in terms of capital and/or liquidity. Given the strong condition of the Group, both financial and of its balance structure, such levers allow it to access wholesale markets, both local and international, to obtain financing and capital, have at its disposal high quality assets for its sale and/or securitization, as well as discount securities, either at the market or with the Central Bank.

Based on the foregoing, it is determined that the Group has the mechanisms necessary to efficiently face stress scenarios that may impair the situation, both in relation to the capital and liquidity.

For further details, see “Exhibit 1-O”, required by the Banking Regulations “Supplementary Information for the fourth quarter of 2020”, in compliance with the obligation to disclose information on the Capitalization Index, available on the webpage https://investors.bbva.com/.

(27) Foreign currency position-

Central Bank regulations provides for standards and limits for banks to keep long or lending (short or borrowing) positions in foreign currencies equivalent to a maximum of 15% of the Institution’s basic capital. As of December 31, 2020, and 2019, the Bank kept an exchange rate risk position within the mentioned limit.

As of December 31, 2020 and 2019, the exchange rate determined by the Central Bank and used by to value its assets and liabilities in foreign currency (translated to U.S. dollars) was MXP 19.9087 and MXP 18.8642 per U.S. dollar, respectively, and the position in foreign currency was as described below:

	USD in millions	
	2020	2019
Assets	17,422	15,260
Liabilities	(16,171)	(14,871)
Net assets position in U.S. dollars	1,251	389
Net assets position in Mexican pesos (nominal value)	$ 24,906	7,338

As of February 26, 2021, issue date of the audited financial statements, the last known exchange rate established by the Mexican central bank was 1 USD = MXN $20.8523.

Pursuant to the regulations of the Central Bank, the position reported to that institution as of December 31, 2020 and 2019 was USD322 million and USD430 million long, which includes foreign currency option positions, and excludes assets and liabilities that are not computable.

The Group performs transactions in foreign currency, primarily in U.S. dollars, Euros and Japanese yen. The Group does not disclose its position in currencies other than the US dollar, as it is largely immaterial. The parity of other currencies with the Mexican peso is referenced to the US dollar and is incompliance with the Central Bank regulations so that the foreign currency position of all currencies is consolidated in US dollars at each monthly closing.

(28) Position in UDIS-

As of December 31, 2020, and 2019, the Group had UDI-denominated assets and liabilities translated into Mexican pesos, considering the prevailing conversion rate of $6.605597 and $6.399018 Mexican pesos per UDI, respectively, as follows:

	UDIS in millions	
	2020	2019
Assets	$ 22,123	24,235
Liabilities	(22,199)	(5,582)
Net asset position in UDIs	(76)	18,653
Net asset position Mexican pesos (nominal value)	$ (502)	119,361

As of February 26, 2021, issue date of the audited financial statements, the last known UDIS exchange rate of that date was MXP $6.699312 per UDI.

(29) Preventive and protective savings mechanism-

The Bank Savings Protection Institute (for its acronym in Spanish "IPAB") was approved on January 19, 1999. It is intended to establish a bank savings protection system for individuals who perform any of the established guaranteed transactions, while regulating the financial support granted to Full-Service Banking Institutions to protect the public interest for an equivalent of up to 400,000 UDIs.

The IPAB has resources derived from the mandatory fees paid by financial institutions, which reflect their risk exposure levels based on their level of capitalization and other indicators determined by the internal regulations of the IPAB Governance Board. These fees must be paid monthly for an amount equivalent to one twelfth of four thousandths of the monthly average of daily debit transactions of the month in question.

During 2020 and 2019, contributions made by the financial group to IPAB for insurance deposits amounted to $6,303 and $5,430, respectively.

Protection to the securities market, reserve fund - In March 1999, broker-dealers acting as settlors created a trust with the purpose of building a fund to allow the broker-dealers to have a financial reserve amount up to the contributions made by each broker-dealer. Contributions made by and interest earned the Broker-Dealer as of December 31, 2020 and 2019 amounted to $39.9 and $52.5, respectively.

(30) Net interest income-

For the years ended December 31, 2020 and 2019, the main items comprising the net interest income were as shown in the next page.

	2020 Pesos	2020 U.S. Dollars MXP equivalent	2020 Total
Interest income:			
Interest and returns on loan portfolio (note 9)	129,602	12,041	141,643
Interest and return on securities (note 6(a), 6(b) and 6(c))	40,836	84	40,920
Interest on cash and cash equivalents	2,722	231	2,953
Interest and premiums on repurchase/resale agreements and securities lending (note 7(b))	3,308	-	3,308
Interest on margin accounts	145	-	145
Interest on subordinated debt	63	-	63
Fee income on loan originations (note 9)	1,990	7	1,997
Other	319	392	711
Total interest income	178,985	12,755	191,740
Premium income (net)	24,717	-	24,717
Interest expense:			
Interest on deposits	(25,200)	(2,570)	(27,770)
Interest on loans by banks and entities	(1,230)	(27)	(1,257)
Interest on subordinated debt	(759)	(4,227)	(4,986)
Interest and premiums on repurchase/resale agreements and securities lending (note 7 (b) and 7 (c))	(18,907)	-	(18,907)
Expenses on loan originations	(1,246)	-	(1,246)
Other	(1,053)	(70)	(1,123)
Total interest expense	(48,395)	(6,894)	(55,289)
Net increase of technical reserves	2,767	-	2,767
Loss ratio, claims and other contractual obligations, net	(28,451)	(1)	(28,452)
Net interest income	$ 129,623	5,860	135,483

	2019		
		U.S. Dollars MXP	
	Pesos	equivalent	Total
Interest income:			
Interest and returns on loan portfolio (note 9)	142,320	12,120	154,440
Interest and return on securities (note 6 (a), 6 (b) and 6 (c))	43,909	690	44,599
Interest on cash and cash equivalents	4,031	1,245	5,276
Interest and premiums on repurchase/resale agreements and securities lending (note 7 (b))	2,717	-	2,717
Interest on margin accounts	228	-	228
Interest on subordinated debt	63	-	63
Fee income on loan originations (note 9)	2,094	12	2,106
Other	1,013	141	1,154
Total interest income	196,375	14,208	210,583
Premium income (net)	23,056	-	23,056
Interest expense:			
Interest on deposits	(34,257)	(1,060)	(35,317)
Interest on loans by banks and entities	(1,612)	(5)	(1,617)
Interest on subordinated debt	(3,446)	(3,734)	(7,180)
Interest and premiums on repurchase/resale agreements and securities lending (note 7 (b) and 7(c))	(25,258)	-	(25,258)
Expenses on loan originations	(1,363)	-	(1,363)
Other	(843)	(89)	(932)
Total interest expense	(66,779)	(4,888)	(71,667)
Net increase of technical reserves	333	-	333
Loss ratio, claims and other contractual obligations, net	(25,311)	-	(25,311)
Net interest income	$ 127,674	9,320	136,994

(31) Commissions and fee income-

For the years ended December 31, 2020 and 2019, the main items for which the Group recorded commissions and fee income in the consolidated statement of income were as follows:

	2020	2019
Credit cards and debit cards	$ 21,450	25,887
Bank fees	5,856	7,232
Investment funds	3,456	17
Insurance	-	-
Other	12,170	12,391
Total	$ 42,932	45,527

During 2020 and 2019, the amount of revenues earned by the Group in trust operations amounted to $456 and $462, respectively.

For the years ended December 31, 2020 and 2019, the main items for which the Group recorded commission and fee expense in the consolidated statement of income were as follows:

	2020	2019
Credit cards	$ (9,146)	(10,383)
Effective credit card reward points	(2,336)	(3,120)
Promotion fund collateral	(957)	(842)
Cash management and fund transfers	(318)	(352)
Credit placement	(401)	(325)
Appraisals	(286)	(297)
Sale of foreclosed assets	(139)	(104)
Purchase-sale to securities	(197)	(288)
Insurance	(15)	(300)
Other	(3,271)	(2,200)
Total	$ (17,066)	(18,211)

(32) Net gain on financial assets and liabilities-

For the years ended December 31, 2020 and 2019, the main items comprising the net gain on financial assets and liabilities were as follows:

	2020	2019
Valuation result:		
Derivatives	$ (814)	(13,956)
Currency	(6,326)	9,014
Securities investment (note 6 (a) and 6 (a3))	(918)	(820)
	(8,058)	(5,762)
Purchase-sale result:		
Derivatives	8,129	4,022
Currency	6,052	5,690
Securities investment	6,593	9,160
	20,774	18,872
Total	$ 12,716	13,110

(33) Segment information –

The Group and its subsidiaries take part in different activities of the financial system, such as credit operations, treasury operations, and transfer of funds from abroad, distribution and administration of investment funds, the insurance sector, among others. Performance evaluation, as well as the management of the risks of the different activities, is based on the information produced by the Group’s business units, more than the legal entities in which the results generated are recorded.

The revenues obtained during the years 2020 and 2019, which show the different segments as indicated in the preceding paragraph.

Grupo Financiero BBVA Bancomer, S.A. de C.V.
and Subsidiaries

2020

Item	Total	Commercial Bank	Corporate and Government Banking	Treasury Transactions	Insurance	Other Segments
Net interest income	$ 135,483	92,141	30,991	982	9,635	1,734
Allowance for loan losses	(47,128)	(38,685)	(8,405)	-	(38)	-
Net interest income adjusted for allowance for loan losses	88,355	53,456	22,586	982	9,597	1,734
Commissions and fees, net	25,866	18,514	8,608	1,236	(2,506)	14
Net gain on financial assets and liabilities	12,716	2,636	927	4,572	4,143	438
Other operating income	(481)	(242)	245	(9)	(1,134)	659
	126,456	74,364	32,366	6,781	10,100	2,845
Administrative and promotional expenses	(66,090)					
Net operating revenues	60,366					
Equity in the income of non-consolidated subsidiaries and associates	69					
Income before income tax	60,435					
Current income tax	(20,436)					
Deferred income tax, net	2,860					
Income before non-controlling interest	42,859					
Non-controlling interest	1					
Net income	$ 42,860					

2019

Item	Total	Commercial Bank	Corporate and Government Banking	Treasury Transactions	Insurance	Other Segments
Net interest income	$ 136,994	93,850	34,733	592	7,127	692
Allowance for loan losses	(35,716)	(32,238)	(3,474)	-	(4)	-
Net interest income adjusted for allowance for loan losses	101,278	61,612	31,259	592	7,123	692
Commissions and fees, net	27,316	18,714	9,174	971	(2,407)	864
Net gain on financial assets and liabilities	13,110	2,241	822	3,177	6,606	264
Other operating income	1,143	(810)	161	(31)	164	1,659
	142,847	81,757	41,416	4,709	11,486	3,479
Administrative and promotional expenses	(64,839)					
Net operating revenues	78,008					
Equity in income of non-consolidated subsidiaries and associates	53					
Income before income tax	78,061					
Current income tax	(25,930)					
Deferred income tax, net	4,872					
Income before non-controlling interest	57,003					
Non-controlling interest	(2)					
Net income	$ 57,001					

(34) Risk management and derivatives from the Bank, as the most significant subsidiary (Unaudited)-

Organizational structure

The Institution's Risk Department reports directly to senior management of the Institution, thus guaranteeing its independence of the business units and establishing the necessary autonomy for the development of its activities.

Generally speaking, based on national and international best practices, three specialized Credit Risk Teams have been created: the first aimed to the Wholesale portfolio, with admission, monitoring and recovery functions. The second team focuses on the SME sector and the last one on the Individuals sector, both performing admission and monitoring functions. The three previous teams are supported and complemented by an area dedicated to the management of recovered Non-Financial Assets (NFA). There is also a specific area for the SME and Individuals sectors that concentrates the recovery functions given the common characteristics and synergies involved in performing the function for these sectors. Additionally, management of market, structural and liquidity risks is integrated into a Unit, which also includes the management of risks of non-bank businesses and asset management.

Additionally, the Advanced Analytics, Risk Solutions and Risk Transformation units exist in support of the units mentioned above. Advanced Analytics addresses specialized needs of methodologies and technologies in the Risk areas. Risk Solutions ensures that the areas have the necessary technological resources to carry out their functions and leads the portfolio of projects in this area. Risk Transformation seeks the efficient execution and continuous improvement of the processes of the Risk areas.

The Portfolio Management, Data & Reporting unit has been implemented for the integration, monitoring and generation of reports for the management of the areas, as well as for the measurement of operational risk and loss management. In addition, this area is responsible for the disclosure of information within the scope of Risks with strict adherence to national and international regulations.

In conformity with the Commission's regulatory requirements for the disclosure of the policies and procedures established by credit institutions for comprehensive risk management, below we present the measures established for such purpose by management of the Institution, as well as the relevant quantitative information.

Qualitative information:

- *Participation of governing bodies:*

  The Bank's risk management model is characterized by the direct influence of its corporate entities with regard to both the definition of the risk strategy and the follow-up and continuous supervision of its implementation.

  The Institution's Board of Directors approves, at the proposal of the Risk Committee, (i) the objectives, guidelines and policies of the Comprehensive Risk Management, and potential amendments, (ii) the global limits of exposure to risk and, where appropriate, the Specific Risk Exposure Limits, considering the Consolidated Risk, broken down by business unit or risk factor, as well as, where appropriate, the Risk Tolerance Levels, (iii) special cases or circumstances in which both the Global Risk Exposure Limits and the Specific Risk Exposure Limits may be exceeded, (iv) Capital Sufficiency Assessment including the capital estimate and, where appropriate, the capitalization plan, and (v) the Contingency Plan and its amendments.

The Delegated Risk Committee of the Institution's Board approves: (i) the Specific Risk Exposure Limits and the Risk Tolerance Levels, as well as the indicators on liquidity risk, (ii) the methodologies and procedures to identify, measure, monitor, limit, control, inform and disclose the different types of risk to which the Institution is exposed and any potential amendment, (iii) the models, parameters, scenarios, assumptions, including those related to stress tests, which are used to conduct the Capital Sufficiency Assessment and to be used to carry out the valuation, measurement and control of the risks proposed by the Unit for Comprehensive Risk Management, which must be in accordance with the Institution's technology, (iv) the methodologies for the identification, valuation, measurement and control of the risks of new transactions, products and services the Institution intends to offer to the market, (v) correction plans proposed by the Chief Executive Officer, (vi) the evaluation of the aspects of Comprehensive Risk Management, and (vii) the level of effectiveness that validation mechanisms of the security elements of the identifications presented by potential clients must have, as well as the technology to carry out the biometric examinations contemplated in the law.

In addition to the other activities in compliance with the applicable regulations and those that are delegated by the Institution's Board of Directors.

- *Policies and procedures:*

  Risk manuals are in place that set out the strategy, organization, operational framework, technological framework, methodological framework, and regulatory processes according to the needs of each procedure or Comprehensive Risk Management policy of the Institution.

  A training program on risks and regulatory disclosure is also in place, including defined and delimited third-party liability.

- *Tactic decision making*

  The Institution's management model guarantees the independence of the Comprehensive Risk Management Unit, which establishes monitoring processes through reports and alerts to detect instances of impairment, together with business objective departures and the structure of limits defined by risk type.

  The Bank's different risk units participate in the preparation of the Risk Appetite that the Bank is willing to assume to attain its business objectives and which must be submitted, as regards general and specific issues, and sub-limits, by the Risk Committee to the Board of Directors for approval, if any.

  The Bank has adequate authorization processes for new products and/or services that imply risks and which include the ratification of each individual product and/or service by the Risk Committee.

- *Tools and analytics*

  Continuous measurement of credit, market and liquidity risks under consistent methodologies and parameters. Budgets are prepared for these metrics, which serve as the basis for the risk management.

  In the reports, the risks incurred by the different business units of the Institution are monitored and analyzed. In said monitoring the Risk Metrics, Risk Appetite, Main Concentrations, Compliance with Regulatory Limits, the Analysis of Credit Stress, Calculation of Regulatory Capital Requirement, Structural Risks, Market Risks, Liquidity Risk, Operational Risk and Legal Risk.

The methodologies and parameters for measuring risks are periodically calibrated and submitted for the approval of the competent entities.

The establishment of periodic sensitivity analyses, testing under extreme conditions and review and improvement of models.

The establishment of monitoring and operational and legal risk control methodologies in conformity with international standards.

- *Information*

Information is the cornerstone of risk management and is utilized for preventive management based on the definition and establishment of early warning indicators and metrics to anticipate risk profile movements - positive and negative - (clients, portfolios, products, asset classes). It is also used to avoid impairment and indicate departures and potential threats derived from all risks and defined axes during the different phases (current, impaired and in recovery), at all the organizational levels of the risk function (risk units in the different business areas, corporate area and specialized areas) and corporate entities, thereby ensuring its coherence and compliance with applicable regulatory requirements.

It is assured that the data used in the preparation of the reports come from unified sources by type of risk, reconciled, traceable, automated to a greater extent (or if they are manual, with controls), with a single definition, guaranteeing the frequency, distribution and confidentiality of the “reporting” among other aspects.

- *Technological platform*

The source and calculation systems for risk measurements are periodically reviewed and a process of continuous improvement is carried out to guarantee the quality and sufficiency of the data and aiming, to the extent possible, to automate processes.

- *Audit*

Internal Audit in compliance with the obligations indicated in the Banking Regulations (*Circular Única de Bancos* or CUB for its acronym in Spanish), conducts on an annual basis a Comprehensive Risk Management Audit in accordance with the legal provisions applicable to the matter, which is sent to the Commission. The recommendations in each of the audits are periodically monitored by the Audit Committee delegated by the Board of Directors.

Similarly, compliance audits in accordance with the Banking Law, the Banking Regulations and other legal provisions applicable to the Institution are conducted by independent experts, whereby it has been concluded that the risk measurement models, systems, methodologies, assumptions, parameters and procedures comply with their functionality in response to the characteristics of the Institution’s operations, instruments, portfolios and risk exposures.

The Bank considers that to date, it fully complies with the “Regulations on matters of risk management”. It also continues with measurement and limitation improvement projects, automation of processes and methodological refinements.

Methodological framework:

For risk purposes, the Institution's balance sheet is broken-down as follows:

a) *Market Risk:* Transactions and investment portfolios - Investment in securities for trading purposes, repurchase agreements and transactions with derivative financial instruments.

Structural Balance – Available-for-sale, remaining transactions, including securities held to maturity and derivative financial instruments for structural risk management of interest rates and exchange rates.

b) *Credit Risk:*

Enterprises and Large Enterprises - Traditional loan portfolio, including small and medium size companies as well as exposures for investments in issuances as counterparty in derivative financial instruments.

Consumer - Credit Cards and financing plans.

Mortgage - Mortgage loans.

For purposes of calculating capital and reserves, advanced internal models are used in the credit card and companies and corporate portfolios; such models are approved by the Commission.
Within the Wholesale Portfolio, the definition of subgroups based on the sales figure function has been established as a global criterion:

Sales volume	Segment
> 60 million MXP	Enterprises
>= 50 million and <60 million USD	Large Enterprises (Corporate)

Non-revolving consumer loans, mortgage loans and the commercial loans with a sales volume of less than $60 using standard models to assess capital and reserves.

c) *Liquidity Risk:* Banking business. With positions on and off-balance, including loans, traditional deposits, investments in securities, derivatives, wholesale financing, etc.

Furthermore, if there is a contractual obligation, the follow-up and control over the liquidity risk of the banking business includes liquidity which might be required by its subsidiaries, entities belonging to the same financial group or relevant related parties, and liquidity which the banking business itself might require from some of such entities or related parties.

Credit Risk

Methodological information

The measurement of credit risk is associated with volatility of expected revenues and has two basic measures: Expected Loss ("EL") and Unexpected Loss ("UL").

The EL of a portfolio represents the average credit balance, which is not expected to be recovered, plus the net of the losses incurred for its recovery and is considered as an inevitable business loss from granting loans over time. The calculation of the Global EL of each portfolio first requires the determination of the EL for each borrower; for this reason, the model focuses initially on an individual situation.

Expected Loss = Probability of Default x Loss Given Default x Exposure

Probability of Default is that of a client defaulting its obligations. The elements that make it possible to determine this factor are risk rating by customer, migration of credit quality and condition of past due portfolio.

Loss Given Default is that net economic loss from the recovery of a financing, the elements that allow to determine this factor are recovery expenses (award and sale) and type of collateral.

Exposure refers to the maximum amount of the balance at the time of default, the elements that allow determining this factor are size of facility, facility use and type of product.

Portfolio*	Percentage of expected loss
Commercial	0.6%
Consumer	4.8%
Mortgage	0.5%

Portfolio*	PD's	LGD
Commercial	1.4%	34.6%
Consumer	6.4%	78.8%
Mortgage	2.0%	20.7%

*The parameters are weighted on the current portion of each of the portfolios and are calculated based on the Institution's internal models, for the portfolios for which these models have been approved (CC, Enterprises, Large Enterprises and Mortgages) and under the standard method for the others.

Once the level of expected loss is determined, its volatility determines the amount of economic capital necessary to cover the identified risks. Given that credit losses can vary significantly over time, it can be inferred that by creating a fund with an amount equal to the average loss, the credit risk will be covered in the long term; However, in the short term fluctuations and, therefore, risk persists generating uncertainty, so it must also be covered with a second fund that serves as a guarantee to cover when these exceed the average losses.

From this standpoint, the average losses can be supported with the creation of an allowance for loan losses which should be treated as a cost of the credit business, while the second fund, created to cover unexpected losses, should be assured by setting aside a specific amount of capital which may be used or not, but which assures the solvency of the Institution in the event of above average losses. This allocated capital therefore depends on how volatile the credit losses are over time and is known as Economic Capital, to give it a risk connotation.

The level of solvency desired by the Institution has to be established in the calculation of the UL, in such a way that the amount allocated covers the volatility of the losses a specific number of times, thus assuring a specific credit quality for the bank at a certain level of probability. This solvency probability is determined by using the risk classification with which the Institution wishes to operate; consequently, the economic capital will have to be equal to the amount necessary for the probability to materialize. Furthermore, the origination models (Scorings or Ratings) are defined for use in all the transaction and portfolio levels and in the behavior models they are established for the most important portfolio, which is Credit Cards, Mortgages, and Non-Revolving Consumer. These models, apart from supporting the credit decision, are linked with the probability of default established above.

For more information on credit risk and details of Article 88 of the Banking Regulations, go to bbva.mx where a file with all the requirements is published (within the section of investor relations).

Scope and nature of risk information and measurement systems and their reporting

The information systems are housed in a system developed internally for the Institution, which is run in a mainframe IBM environment (Host) as part of the ALTAMIRA unified bank management platform, DB2 databases, and is developed in COBOL.

The Institution ensures that the data used to prepare reports is taken from unified sources by risk type, which have been reconciled, are traceable and essentially automatic (or involve manual sources with controls). This data has a single definition to guarantee reporting frequency, distribution, and confidentiality, among other aspects.

Internal model approval

The Institution applies internal methodologies to standardized portfolios, i.e., it does not partially adopt internal methods within portfolios.

The Commission authorized the use of advanced internal models for the first time on June 22, 2009 for the revolving consumer portfolio, on April 21, 2014 in the case of Enterprises and Large Enterprises, and on November 16, 2018 for the Residential Mortgage Portfolio.

The most recent authorizations for updating parameters were given on October 15, 2020 for Credit Card, on December 17, 2020 for Enterprises, on April 19, 2018 for Large Enterprises, and on August 14, 2020 for Mortgage Portfolio.

Exposure at Default

Exposure at Default (EAD) is defined as the calculation of the disposed balance in the period under analysis, plus the Available balance and line granted, adjusted for Credit Conversion Factors, (CCF1 and CCF2), respectively, CCF1 and CCF2 are calibrated from historic information.

EAD = Disposed Balance + CCF1*Undisposed Balance + CCF2 *Limits

Probability of Default

In the calibrations of the probabilities of default, a definition of default based on 90 days is used, which matches the default definition used by Basel II.

Consequently, for the Bank, a transaction/client will be considered as "bad" or in arrears when either of the following options arises:

- 90 days have elapsed since the day of the first nonpayment.
- The amount should go through a materiality filter so that the transaction/client may be considered in arrears.

The materiality filter is the only difference as regards the default definition established by Article 2 Bis 68 of the National Banking and Securities Commission provisions.

Loss Given Default

The method used to estimate the severity or LGD is the so-called Workout LGD, based on the cash flow discount of exposures in arrears recovered at different moments in time derived from the portfolio recovery process. The recovery cycle is the process in which a contract goes into arrears and ends when it emerges from such situation. Once a contract goes into arrears, it begins a recovery process known as a recovery cycle in which those movements that increase the debt and which reduce the debt are accounted for. That part which could not be recovered is known as a Loss and if it is expressed as a percentage of the Exposure at Default, it is known as Loss Given Default.

Throughout this recovery process, there is a constant identification of the amounts entering capital accounts, recoveries in memorandum accounts and capital accounts, and the amount of exposure at the time of default. Therefore, the LGD is calculated as the difference between the accrued deposits less discounted recoveries (carried to present value) at the opening date of the cycle, for the exposure at default.

Loss Given Default = LGD = (Σ entries in arrears - Σ recoveries)/EAD

- Coverage and/or mitigation policies by each type of risk

    The Bank performs revaluations of the loans, depending on the type of collateral, using statistical methods or confirming the existence and physical condition of the collateral. The value of the personal and real estate guarantees is updated each year over the term of the loan, except for those which require an ongoing evaluation (shares listed on stock markets) or for discontinued periods (investment projects).

    The Bank has a robust system in place to handle financial security interests in real or personal property and a calculation engine, which have been certified by the Commission according to the integral method to recognize credit risk coverage, provided in Articles 2 Bis 31, 2 Bis 36, 2 Bis 37 and 2 Bis 48 of the Banking Regulations (CUB).

    The integral approach used for the hedge recognition is governed by the following points:

    Amount of adjusted collateral: The adjusted amount of collateral decreases its market value to take into consideration the loss in value which it may suffer due to the effects of the fluctuation in its market price and fluctuation in exchange rates.

$$CA = \frac{C_i}{C_i^{***}} \cdot (1 - H_C - H_{FX}) \cdot \frac{(t-0.25)}{T-0.25}$$

Covered and uncovered exposure: The calculation of uncovered exposure (E*) is a cyclical process in which each iteration is incorporated into a new collateral (CAi) according to the prioritization determined, until there is no eligible collateral to be included in the process.

Internal ratings process: For the Enterprises and Large Enterprises internal model (E&LE), the Institution considers groups III and IV and certain cases from group V of the rules for the capitalization requirements of full-service banks and national credit institutions and development banks of the Commission. Group IV excludes clients with investment projects, as well as small and medium mortgage promoters, and small and medium companies (SME) according to the sales volume (clients with transactions valued at less than MXP 60 million). Large promoters are considered from group III.

Description of portfolios with certified internal models:

A description of the wholesale portfolio, which has been rated according to internal models, is provided below:

	Closing E&LE December 2020						
Risk Scale	Available	Balance	Exposure at default	Weighted average LGD	Risk weighted	Exposure non-financial security right	Exposure financial security
A1	$ 88,865	627,923	383,172	39.52%	0.47%	$ 190,157	15,704
A2	458	74,349	11,890	37.89%	3.06%	13,981	1,147
B1	509	16,835	5,562	37.76%	4.51%	8,727	206
B2	100	5,528	1,995	35.44%	6.55%	2,186	1,743
B3	315	20,997	5,211	37.77%	8.89%	6,148	795
C1	84	6,015	3,245	37.68%	15.69%	3,665	155
C2	60	1,704	249	37.98%	37.75%	182	65
D	2	4,355	307	43.26%	99.91%	60	84
E	1,620	10,564	7,995	69.28%	97.89%	4,293	141
Total	$ 92,013	768,270	419,626	39.83%(*)	2.90%(*)	$ 229,399	20,040

(*) Average weighted percentage.

For the credit card internal model, the Bank considers Group VI (Consumer and mortgage loans) in accordance with the capitalization rules of the CUB. Such group matches the loans made to clients -Individuals - who were granted a revolving credit line for personal use.

A description of the credit card and mortgage portfolio under internal models is detailed below:

Closing CC December 2020

Scale	Available	Balance	Exposure at default	Weighted average LGD	Weighted Risk
A1	$ 52,692	49,141	70,068	75.20%	1.60%
A2	14,085	3,985	18,316	76.90%	3.90%
B1	8,152	8,385	10,601	76.89%	5.90%
B2	7,463	7,777	9,666	77.20%	7.60%
B3	7,552	7,697	9,692	77.92%	9.10%
C1	8,677	8,340	11,157	77.77%	11.50%
C2	10,552	10,998	13,809	76.41%	25.10%
D	2,081	1,952	2,778	74.90%	53.50%
E	4,685	4,874	5,659	82.78%	86.80%
Total	$ 115,939	113,149	151,746	76.40%(*)	10.00%(*)

(*) Average weighted percentage.

Mortgage Closing December 2020

Degree of actual risk	Balance	Exposure at default	Weighted average LGD	Weighted Risk	Current exposure	Expired exposure
A1	$ 215,436	232,852	20.64%	1.01%	$ 232,852	-
A2	2,229	4,875	20.85%	6.44%	4,875	-
B1	7,016	1,867	20.45%	10.08%	1,867	-
B2	10,270	1,800	20.57%	12.15%	1,800	-
B3	2,709	1,384	20.97%	14.49%	1,384	-
C1	7,096	4,349	20.50%	25.50%	4,349	-
C2	3,972	3,496	26.29%	73.91%	1,350	2,146
D	5,659	5,792	30.88%	95.02%	434	5,358
E	3,878	1,850	51.92%	99.95%	1	1,849
Total	$ 258,265	258,265	21.17%(*)	5.54%(*)	$ 248,912	9,353

(*) Average weighted percentage.

- *Analysis of estimated losses according to certified internal models*

The back-test exercise matches estimated losses calculated by using the internal model with incurred losses, so as to determine whether established parameters adequately predict their behavior during an annual timeframe.

The level of reserves is considered to be adequate when, at the close of the annual timeframe, the amount of actual losses accrued for certified portfolios does not exceed the band established for estimated reserves.

The result obtained for certified portfolios during the third quarter of 2020 is detailed below:

Backtesting 3Q 20

Loan Portfolio	*** EL** MI Sep19	Clean-up Oct19-Sep20	DIFF $ (OL*- EL **)	% USE EL** Sep19
CREDIT CARD	$ 9,683	11,982	2,299	124%
E&LE	4,890	708	(4,182)	114%
Mortgage	4,053	2,122	(1,931)	52%
Total	$ 18,626	14,812	(3,814)	80%

* OL = Observed Loss
** EL = Expected Loss
***IM= Internal Model

The loss use is 80%, which is acceptable.

Internal ratings systems and the relationship between internal and external credit risk ratings.

The Bank utilizes two types of credit risk model, which are clearly differentiated by the portfolio to which they are applied and the information systems supporting the rating tools used for contracts and clients (scoring and rating, respectively). The rating institutions utilized to assign ratings to loan portfolio transactions are Standard & Poor's, Moody's and Fitch.

Scoring (retail portfolios) and rating (wholesale portfolios) tools are utilized to ensure that the decisions made by the Institution's entities maintain the portfolio's profitability and the required quality level.

- Rating

  The rating module is to provide tools for analysis and valuation which enable a loan classification to be given to a customer based on homogeneous data and criteria for the Bank. The rating is a tool for customer classification, geared towards company banking and corporate banking.

  The rating basically consists of classifying the customer based on a series of quantitative variables, which are obtained from the financial statements (Balance Sheet and profit and loss account) and from a series of qualitative variables (sector, market position, etc.).

  Using these variables, a series of rules or red flag signals are established which enable the agent or analyst to clarify specific aspects which require a justification (elevated indebtedness, reduced level of proprietary funds, etc.) which, depending on their importance, might condition the result obtained for the loan to be granted. The rating is part of the information used in the process to make decisions on a transaction and it is the indispensable support to set price policies considering the risk-profitability binomial.

- Scoring

The scoring module provides tools for analysis and valuation which enable a credit rating to be fixed with a focus on product based on homogeneous data and criteria for the Bank. There are two types of Scoring:

  - Origination scoring, which is obtained at the time of contracting, based on proprietary information of the operation and information requested from the customer, generates a score for each operation.
  - Behavioral scoring is obtained each month, based on payments behavior with the Bank. This model, which is used in the assignment of scores for each of the operations, is easy to understand, stable and enables the expert to use it in decision-making.

- Profitability measurement

  Aside from calculating capital requirements derived from its credit risk, the Bank also utilizes internal estimates to measure the profitability of transactions awaiting acceptance and stock. In the case of loans granted to enterprises, large enterprises, IFI, states and sovereign entities, profitability and added economic benefit indicators are calculated during the customer evaluation process.

  The Bank uses utilizes two methodologies to measure loan portfolio profitability. One of these involves measuring profitability based on the regulatory capital calculated according to risk-weighted assets (RoRC), while the other methodology measures Risk Adjusted Return on Economic Capital (RAROEC).

Interest Rate Risk

Structural Balance

Regarding the risk of the Structural Balance of interest rates and exchange rates, sensitivity of Economic Value and Financial Margin are calculated in the face of parallel movements in the curves of +/- 100 bp and in the aggregate for Pesos and UDIs with respect to the US Dollar, according to the methodology authorized by the Risks Committee. A system of alerts has been established for previous metrics; monthly follow-up is provided by the Risk Committee and is quarterly presented to the Board of Directors; mitigation measures have been established for those cases in which alert limits are exceeded.

The structural risk measurement system is QRM (Quantitative Risk Management), which in turn incorporates the characterization of the headings of the structural balance sheet according to the financial characteristics of each heading. The methodology behind the economic value consists of estimating the fair value of the positions on the structural balance sheet, through the calculation of the current value of its net future flows (the flows expected from its assets less the flows expected from its liabilities) discounted at market interest rates. By the same token, the methodology behind the net interest income metrics is based on the projection of the interest income and expenses from the structural balance sheet, month-to-month in a 12-month horizon, considering the projected growth of the business. Specifically, the principal assumptions behind the characterization of the headings of the structural balance sheet are as follows:

- Prepayment rates: Supposes an advance payment of certain headings of the structural balance sheet, such as mortgage loans and consumer portfolio.

- Evolution of products which do not have a maturity date: for demand deposits and CC, core or stable and volatile balances are calibrated, and subsequently their evolution over time is forecast.

The assumptions behind the characterization of the headings on the structural balance sheet are modeled based on historical observations, of the same headings of the structural balance sheet and the evolution of the risk factors. At least once a year there is a revision and validation of the adjustment of the models and systems comprising the risk metrics of the structural balance sheet.

To monitor the structural balance risk interest rate and exchange rate, in which the Assets and Liabilities Committee is the executive body responsible for handling the situation. Such committee is not a delegated body of the Board of Directors. It adopts investment and hedging strategies within the policies and risk limits approved by the Board of Directors and the Delegated Risk Committee of the Board.

At the end of December 2020, the sensitivity of Economic Value and Sensitivity of Financial Margin +/- 100 bp and aggregated are shown below:

Estimated Economic Value Sensitivity

Portfolio	(100) bps	+100 bps	Red flag use
Mexican pesos	$(7,143)	6,857	
Foreign currency	1,629	(4,464)	
Total	$(5,514)	2,393	80%

12-Month Projection of Net Interest Income

Portfolio	(100) bps	+100 bps	Red flag use
Mexican pesos	$3,497	(3,500)	
Foreign currency	399	(1,525)	
Total	$3,896	(5,025)	59%

With respect to consumption, the use of alerts in the quarter shows the following exposure:

Portfolio	SVE(1) Red flag use	SMF(2) Red flag use
Total	75.9%	56.9%

With respect to annual consumption, exposures are as follows:

Portfolio	SVE Red flag use	SMF Red flag use
Total	69.8%	53.1%

(1) for its acronym in Spanish "SVE" *Sensibilidad Valor Económico (Economic Value Sensitivity)*
(2) for its acronym in Spanish "SMF" *Sensibilidad Margen Financiero (Financial Margin Sensitivity)*

Market, Liquidity and Operational Risks

Market Risk

With regard to the process for market risk measurement and the operating and investment portfolios, the daily measurement of market risk is made through Value at Risk (VaR) statistical techniques, such as the central measurement:

1. Define the degree of sensitivity in the valuation of positions to changes in prices, interest rates or indexes.

2. Reasonably estimate the expected change for a specific time horizon with certain prices, rates, rates, or indexes, considering it the degree to which they can be moved.

3. Reevaluate the portfolio to such expected changes sets and thereby determine the maximum potential loss in terms of value.

In summary, the Value at Risk (VaR) has been fixed based on the view that one day's operation will not lose more than the amount calculated 99% of the time.

Market, Structural and Non-Banking Risks is responsible for establishing and monitoring the guidelines, methodologies and limits of market risk, counterparty risk, structural risk and liquidity risk of the Institution, establishing the risk measurement parameters, and providing reports, analysis and evaluations to Senior Management, the Risk Committee and the Board of Directors.

The market risk measurement quantifies the potential change in the value of the positions assumed as a result of changes in market risk factors. When significant risks are identified, they are measured, and limits are assigned in order to ensure adequate control. The global measurement of risk is made through a combination of the methodology applied to the Trading Portfolios and the Structural Balance. Historical Simulation without smoothing is the official methodology currently utilized to calculate the VaR.

Trading Portfolios

In the specific case of the Institution, the VaR is calculated by Historical Simulation and provided that it will not be lost over the horizon of one more day of said VaR 99% of the time. Two methodologies are used with and without "Exponential Smoothing", one that weighs the latest market data very strongly and the other that gives the same weight to the information of a whole year of trends.

	4Q 2019	3Q 2020	4Q 2020
VaR of trading securities:			
VaR 1 day	$ 119	148	159
VaR 10 days	379	482	501
	$ 498	630	660

	VaR 1 day	VaR 10 days
Value at risk, trade securities		
Interest rate	$ 171	$ 546
Equity securities	$ 15	$ 46
Foreign currency	$ 37	$ 123
Interest rate Vega	$ 31	$ 98

Furthermore, daily simulations are performed of the losses or gains on the portfolios by means of reassessments under catastrophic scenarios (stress tests). These estimates are generated by applying percentage changes to the risk factors, which were observed in a specific period of the history, which covers significant market turbulence. Every month back testing is conducted to compare the daily losses and gains that would have been observed if the same positions had been held, by considering only the change in value due to a market movement against the calculation of the value at risk, so that the models used can be calibrated.

Liquidity Risk

Quantitative Information

a) Concentration limits regarding the different groups of collaterals received and the principal sources of financing.

Apart from the regulatory liquidity ratios and the Institution's liquidity risk control scheme is based on the establishment of limits in three fundamental areas: a) Self-financing through the LtSCD ratio or Loan to Stable Customer Deposits (maximum relationship of the financing of the net credit investment with stable customer deposits); b) financing structure diversification through a maximum amount of Short-Term (FCP); and c) Capacity to absorb liquidity shocks through the 30 day Basic Capacity (CB 30d – available liquidity buffer coefficient and net outlays of liquidity established within the respective unexpired deadline). There are also red flags to prevent the limits from being exceeded, including the follow-up on other unexpired deadlines. There are also metrics to identify possible threats in advance to allow for the adoption, as the case may be, of the necessary preventive measures, including indicators of financing concentration, foreign exchange liquidity, long-term financing diversification, intraday liquidity, among others.

Quarterly

LtSCD	27%
STF12m	$261,408
CB30d	53%

Annual

LtSCD	18%
FCP12m	$223,727
CB30d	66%

b) Exposure to liquidity risk and financing needs at the Institution level, bearing in mind legal, regulatory, and operational limitations and the transferability of liquidity.

The Institution's exposure to liquidity risk and its financing needs are based on the principle of decentralized and independent management of liquidity (including Banco Bilbao Vizcaya Argentaria, S.A. in Spain or any of its entities), so as to avoid dependencies or subsidies and eventual contagion due to crisis. At all times they take into account the legal, regulatory and operational limitations on the transferability of liquidity of the applicable rules in setting the liquidity risk policies of the Institution, including the regimes for admission of liabilities and investments for liability transactions in Foreign Currency of Banxico, operating rules of the payment systems, risk diversification in the performance of liability operation specified by the Banking Regulations, among others.

In the case of the investment regime for liability operations in Foreign Currency, apart from the Shortfall regulatory limit, as a preventive measure there is also a red flag system in place which is stricter than the regulatory limit for the investment regime for liability operations in Foreign Currency of the Central Bank.

c) The balance sheet flows at the end of December 2020 by maturity and liquidity gaps are detailed below:

Mexican pesos in millions	On demand	30days	6months	1year	More than 1year	No maturity date	Total
Cash and cash equivalents	$188,524	$ –	$ –	$ –	$ 33,936	–	222,460
Loan portfolio	–	81,420	189,267	100,757	837,044	–	1,208,488
Securities portfolio	–	4,490	58,206	77,746	435,298	–	575,740
Total assets	$188,524	85,910	247,473	178,503	1,306,278	–	2,006,688
Deposit taking	$ –	171,896	57,579	1,285	52	1,081,424	1,312,236
Debt and subordinated debt	–	6,226	27,898	7,584	141,299	–	183,007
Repurchase/resell agreements payable	–	255,727	1,823	3,493	3,244	–	264,287
Other, net	–	–	–	–	–	247,158	247,158
Total liabilities	$ –	433,849	87,300	12,362	144,595	1,328,582	2,006,687
Off-balance	$ –	(3,237)	(1,923)	(6,684)	2,332	–	(9,512)
Liquidity gaps	188,524	(351,176)	158,250	159,456	1,164,015	(1,328,582)	(9,512)
Cumulative gaps	188,524	(162,651)	(4,404)	155,055	1,319,070	(9,512)	–

**Figures in the preceding table only consider the Bank individually, not on a consolidated basis.*

Embedded derivatives

Pursuant to the Bank's programs for issuance of structured bank bonds, the Bank hold foreign currency, indexes and interest rates options, equivalent to a nominal of $17,298. Likewise, the Bank has interest rates and foreign currency swaps with a nominal of $7,414.

Qualitative Information

The way in which the liquidity risk is managed in the Bank by considering for such purpose the tolerance to such risk; the structure and responsibilities for liquidity risk management; internal liquidity reports; the liquidity risk strategy and the policies and procedures through the business lines and with the Board of Directors.

The liquidity risk management in the Bank is governed by the following principles: decentralized and independent liquidity management; self-financing of the credit activity of the banks; liquidity planning in the process of growth planning in the activity; clear segregation of functions to achieve a proactive management of liquidity risk, including intraday liquidity and management of collateral, establishment of a transfer pricing system and standards for internal use of liquidity; as well as alignment with regulatory requirements.

The structure and responsibilities for liquidity risk management are clearly segregated by function and area:

- Setting of general policies, fundamental metrics, and limits. The risk liquidity policies are approved by its Board of Directors, with the prior favorable opinion of the Risk Committee, which bodies approve the liquidity risk limits scheme.

- Risk identification, measurement, and control. The Risks department identifies, measures, and establishes measurements to control liquidity risk to which the Bank is subject through the setting, follow-up and reporting of a limits scheme.

- Management of investing and deposits activity. This is performed by the business areas in accordance with the risks policy.

- Liquidity management and financing. This is performed by Finance, through Financial Management.

- Generation of follow-up information. As much as possible, the Systems and Finance areas of the Institution supply the relevant information for purposes of liquidity risk. At the same time, the Risks department promotes the ongoing improvement of information quality to ensure a correct decision-making process.

The status of the limits and red flags is reported through daily internal reports to Senior Management, Internal Audit and the areas that handle risk, even more frequently in times of crisis.

Strategies are outlined within the risk limits approved by the Board of Directors and Risks Committee delegated by the Board and are agreed upon in the Assets and Liabilities Committee, always within the liquidity risk tolerance approved. Also, follow-up is given on the evolution of liquidity risk and excess risk in these bodies.

a) Financing strategy, including diversification policies, and whether the financing strategy is centralized or decentralized.

Every year the Bank prepares a growth plan of its activity, considering the business's growth projections, the maturities profile of assets and liabilities, the appetite for risk and projected market conditions. On such basis, the financing plan is prepared in the wholesale markets, seeking to maintain diversification in financing, thus ensuring that there is no excessive dependence on short-term financing.

b) Liquidity risk mitigation techniques used by the Bank

The Institution liquidity risk model, based on the principles quoted in subsection (a) of this Section, at all times takes into account the legal, regulatory and operational restrictions on the transferability of liquidity.

Specifically, one of the strengths of the Institution is based on the quality of its funding, which is diversified by type of clients, instruments, and markets.

With regard to deposits, there is an extensive network of retail and wholesale clients. This attraction of deposits is complemented and strengthened with local and international issues, maintaining constant access to debt markets.

In the event of liquidity risk limit or alert triggering, there are specific action and communication procedures within the Institution established with a clear definition of roles for the different areas and decision-making bodies, differentiating the communication level based on whether a limit or alert was triggered. Likewise, there is a Liquidity Contingency Plan, which in the event of activation has a stock of actions classified by their typology based on whether they are related or not to the Mexican Central Bank, the wholesale market or the commercial activity.

c) Explanation on how stress tests are used.

Liquidity risk stress tests are carried out in different stress scenarios, evaluating in each one the buffer coverage state of available liquidity with the liquidity needs of the scenario in question under different temporary horizons and delimiting the survival horizon under different situations. The results of these tests are integral part of the Liquidity Contingency Plan, as they are part of its activation program.

d) Description of contingent financing plans.

The Liquidity Contingency Plan or Contingency Financing Plan is set up as a fundamental element of liquidity risk management in moments of liquidity stress.

It contains clear procedures to make decision making easier, as well as to enable a fast adoption of contingent measures and effective communication, specifying functions and responsibilities in these situations, as well as the authority to activate it. It is defined based on four principles: coordination among the involved units, efficient level of information, confidentiality of performances and information and enforceability. This Plan and its amendments are approved by the Institution's Board of Directors, at the proposal of the Chief Executive Officer. Its activation would be carried out by the Asset/Liability Committee, under a "traffic light approach" for the Plan indicators, which allows to distinguish severity of the situation.

Also, the Bank has a Contingency Plan or Recovery Plan that provides for potential actions to be performed with the purpose of restoring its financial situation in different adverse scenarios that could affect solvency and/or liquidity. This plan describes the bank situation detailing key business lines, recovery indicators, corporate governance for its preparation, as well as in the case of occurrence of adverse scenarios and the process to implement recovery measures. This plan is also approved by the Board of Directors at the proposal of the Risk Committee and prepared by the Chief Executive Officer.

Liquidity Coverage Ratio (LCR)

The LCR quantifies the potential capacity of the Bank to face its 30-day liquidity needs, with available liquid assets, under a stress scenario.

According to the information disclosure requirements set forth in Exhibit 5 of the General Regulations on Liquidity Requirements for Banking Entities, below, a Liquidity Coverage Ratio Disclosure Form for the 2020 fourth quarter must be submitted.

Liquidity Coverage Ratio	Unweighted amount	Weighted amount
Computable liquid assets		
Total computable liquid assets	$ –	439,512
Cash outflows		
Stable financing	$ 584,447	29,223
Less stable financing	156,905	15,690
Unsecured retail financing	741,352	44,913
Operational deposits	272,601	65,674
Non-operational deposits	245,653	103,729
Unsecured debt	5,284	5,284
Unsecured wholesale financing	523,538	174,687
Secured wholesale financing	–	958
Outflows related to derivate financial instruments	36,214	24,278
Facilities and liquidity	580,611	35,697
Additional requirements	616,825	59,975
Other contractual financing obligations	88,373	9,195
Total cash outflows	–	289,728
Cash inflows		
Cash inflows from secured transactions	$ 70,253	–
Cash inflows from unsecured transactions	94,998	54,526
Other cash inflows	4,371	4,371
Total cash inflows	$ 169,622	58,897
Total computable liquid assets	–	439,512
Total net cash outflows	–	230,830
Liquidity Coverage Ratio	–	190.49%

(a) Calendar days in the 2020 fourth quarter are 92 days.

(b) Main causes of the results of LCR and the evolution of their main components:

The average LCR for the fourth quarter of 2020 increased +5.3 percentage points compared to the third quarter of 2020, mainly a consequence of the increase in deposits.

	Weighted amount (average)		Change	
Item	4Q-20	3Q-20	Money	Percentage
Computable liquid assets.	$ 439,512	$ 401,532	$ 37,980	$ 9.5%
Outflows	289,727	283,933	5,795	2.0%
Inflows	58,896	67,008	(8,112)	(12.1%)
Outflows	230,831	216,926	13,905	6.4%
LCR	190.49%	185.24%	5.25%	2.83%

(c) Main changes of the CRL components in the quarter.

Item	Oct-2020	Nov-2020	Dec-2020
Liquid assets	$ 421,228	$ 433,704	$ 463,416
Outflows	284,803	294,825	289,717
Inflows	60,568	58,772	57,346
Net outflows	224,235	236,053	232,371
LCR	187.85%	183.73%	199.43%

As consequence of the increase in deposits, there was an increase in the Level 1 liquid assets amounted to +MXN31.

(d) Concentration of financing sources

One of the great strengths of the Institution is the quality of its funding, which is diversified by type of clients, instruments, and markets. With regard to deposits, there is an extensive network of both retail and wholesale clients. This attraction of deposits is supplemented and strengthened with local and international issues, over different terms, and constant access is maintained with debt markets. The following table shows the Bank's funding structure at the end of December 2020:

Sources of financing (December2020)	% of total liabilities
Clients' deposits	73%
Collateralized financing	14%
Securities	5%
Subordinate obligations	6%
Money market	1%
Interbank	1%
Total	100%

(e) Exposures in financial derivatives and possible margin calls.

Exposure, according to current local exposure guidelines in derivatives for the LCR corresponds to a contingent outlay of transactions involving derivative financial instruments (LBA: Look Back Approach) is detailed on the next page.

Description		4Q-20
Net outlay of derivatives to 30 days plus contingent outlay (LBA)	$	18,556
		=====

Note that during the fourth quarter of 2020 the Bank ended with the option to use the benefit related to the calculation of the Look Back Approach provided for in the exceptions to the General Regulations on the liquidity requirements for Banks (Liquidity Regulations), issued on April 8, 2020 jointly by the Commission and the Central Bank. Specifically, in the Look Back Approach section, institutions are given the option to exclude the month of March 2020 from the calculation and for a period of six months as of February 28, 2020, a period that was extended by six months more, until March 1, 2021.

(f) Mismatch of foreign currencies

Liquidity risk associated to transactions in foreign currency is covered according to the provisions on the liquidity coefficient in foreign currency (ACLME), established by the Central Bank. Also, risk associated to exchange rate is duly funded and managed within the regulatory limits.

(g) Cash flow outlays and receipts that, if appropriate, are not captured in this framework but which the Institution considers relevant for its liquidity profile.

The Bank considers that all relevant flows are covered in the LCR metric calculation, for which reason there are no additional flows to be considered.

Operational Risk

(1) Definition and valuation

Aware of the importance of considering all aspects associated with operating risk, the Bank has implemented comprehensive risk management which not only includes the quantitative aspects of risk, but also seeks to measure other elements that require the introduction of qualitative evaluation mechanisms.

According to the Banking Regulations issued by the Commission, operational risk is defined as: “The potential loss due to failures or deficiencies in internal controls, due to errors in the processing and storage of Operations or in the transmission of information, as well as due to adverse administrative and judicial decisions, fraud or theft and includes, among others, technological risk and legal risk, provided that:

a) Technological risk is defined as the potential loss due to damage, interruption, alteration or failures derived from the use of hardware, software, systems, applications, networks and any other information transmission channel in the provision of banking services to the Institution's clients.

b) Legal risk is defined as the potential loss due to non-compliance with the applicable legal and administrative regulations, the issuance of unfavorable administrative and judicial resolutions and the application of sanctions, in relation to the operations carried out by the Bank.”

Operational risk is originated in the probability of human errors, inadequate or defective internal processes, failures in the systems, and as a result of external events that could represent a loss for the Bank. This definition includes legal risk and excludes the strategic or business risk and the reputational risk.

Operational risk management is integrated into the Institution's global risk management structure, which has established and maintains robust internal models that allow timely knowledge of the materialization of operational risk events.

The Portfolio Management, Data & Reporting Unit is in charge of the operational risk measurement, which is independent of the Market Risk and Credit Risk units, and the Audit, Regulation and Internal Control units.

Losses derived from operational risk recorded in 2020 was $3,281, mainly due to operational items related to tax payments (updates, surcharges and fines) and pandemic expenses (covid-19). The monthly average of losses derived from operational risk recorded in 4Q-20 was $264, mainly due to tax payments (updates, surcharges, and fines) and expenses due to pandemic (covid-19).

(2) General operational risk model

The operating risk management model is based on a cause-effect model which identifies the operating risk associated with the Bank's processes through a continuous improvement circuit

- Identification. Consists of determining which risk factors (circumstances which can become operational risk events) reside in the processes of each business/support unit.

- Quantification. The cost that can be generated by a risk factor is determined by using historical data (database of operating losses) or estimated in the case of risks which have not arisen as past events. This quantification is based on two components: occurrence frequency and monitoring the impact generated in the event of occurrence.

- Mitigation. After having identified and quantified operating risk factors, if this risk exceeds desired levels, a mitigation process is implemented to reduce the risk level by either transferring it or implementing control measures that reduce the frequency or impact of an event.

- Follow-up. Qualitative follow-up is provided to analyze the evolution of the operational risk, which involves evaluating the implementation level of mitigation measures. Quantitative follow-up consists of measuring the evolution of causal operational risk indicators, while also analyzing the evolution of operational risk losses.

Additionally, specific management schemes have been established for technological risks and those derived from legal proceedings.

In the case of the former, in addition to the general operational risk methodology, Information Security & CISO ensures that identified risks and mitigation plans are standardized throughout the Bank and are compliant with logical security.

Regarding judicial processes, in addition to the operational risk management circuit of legal processes, the probability of adverse resolution is calculated on the inventory of administrative processes and legal claims where the Bank is a plaintiff or defendant. Based on the foregoing, the Bank considers that the main factors that influence legal risk are the degree of non-compliance with regulation; types of judicial process in which it is involved; amount demanded and probability of unfavorable resolution.

The Bank has a comprehensive internal control and operational risk methodology. This methodology allows risk identification in the organization areas, the generation of analyses prioritizing the risks according to an estimated residual (after incorporating the effect of controls), linkage of risks to the processes and establishment of a target level for each risk which, in comparison to their residual risk, identifies weaknesses that must be managed.

(3) General operational risk model

The framework of operational risk management defined by the Bank includes a structure based on the three-line defense method with clear demarcation of the responsibilities, policies and procedures common to the entire Bank. For its operation it has systems to identify, measure, monitor, control and mitigate the operational risks and losses, as well as tools and methodologies to quantify the operational risk in terms of capital.

1st Line of Defense - Business Units

- The owners of processes and controls manage the operational risk of their respective areas.
- Those responsible for Internal Control in the Business Units (ICOs) and support areas coordinate the management of operational Risk. They are in charge of identifying risks, proposing mitigation measures when required and keeping track of the indicators on critical risks.

2nd Line of Defense - Internal Control Specialists (RCSs)

- Internal Control Specialists (RCSs) establish control policies and ensure their proper application. They periodically evaluate the effectiveness of the established control measures and ensure the permanent updating of the internal control system, in accordance with the Internal Control objectives and guidelines defined by the Head of Non-Financial Risks, responsible for the Internal Comptroller's function, which are authorized by the Board of Directors at the proposal of the Board’s delegated Audit Committee.
- Internal Comptroller's function

The Head of Non-Financial Risks, through the Head of Internal Control, is in charge of designing, maintaining and updating the operational risk and internal control framework in the Institution, and verifying its correct application in the areas of business and support.

- Define methodology, systems, and tools.
- Promote interaction between the areas responsible for internal control and control specialists and ensure compliance with the corporate plan.
- Keep Senior Management informed.

3rd Line of Defense - Internal Audit

- Verifies compliance with the operational risk management framework in the Bank, with independent reviews and tests of controls, processes, and systems.

Operational risk management at the Bank is designed and coordinated at the Head of Non-Financial Risks, aligned with Grupo BBVA (in Spain) corporate criteria. Business or support areas have, in turn, Internal Control officers (ICOs) who functionally report the Head of Non-Financial Risks, and who are responsible for implementing the model daily at the business areas. Thus, the Bank has a vision in the front of the process, where they identify and characterize operational risk and make decisions on mitigation.

To carry out this task, the Bank has tools in place to cover the qualitative and quantitative aspects of operational risk:

- *Operational Risk Management Tool* - The STORM corporate tool documents the identification and management of the most important risks which constitute the reference to focus attention on the Internal Control Supervision Committees of the business and support units, and on the delegated Risk Committees meetings of the Board held during the year. This tool includes indicator and scenario modules.

- *Indicators fixed in the principal operational risks and their controls:* A structure of indicators is being developed to measure the evolution of the risks and their controls over time, generate red flag signals and measure the effectiveness of the controls on an ongoing basis. These indicators are defined and followed up by the ICOs.

- *SIRO Tool* - Operational risk events almost always have a negative impact on the accounts of the Institution. To ensure detailed control over them, they are registered in a database known as SIRO (Operational Risk Integrated System). To ensure reliability it receives the information directly from accounting by automatic interfaces in 95% of the cases.

(4) Governance Model

Decisions on mitigation are carried out within an Internal Control Supervision Committee, constituted in each business/support unit, in which its management team participates, thus ensuring effective intervention in decision-making.

Relevant aspects of operational risk management derived from the Internal Control Supervision Committees are reported to the Senior Management, as well as to the Delegated Risk Committee of the Board, the Audit Committee delegated by the Board and the Board of Directors, through a reporting scheme coordinated by the Head of Non-Financial Risks, which encourages the highest level of the Institution to be permanently involved in the management of operational risks and the functioning of the internal control system.

(5) Capitalization for operational risk

Based on the changes to the Banking Regulations published by the Commission on December 31, 2014, which define the methodological criteria to determine the capital requirement for operational risk through the Basic, Standard, and Alternative Standard approaches, the Bank requested and obtained authorization from the Commission, to use the Alternative Standard method to calculate the capital requirement for operational risk.

(6) The Alternative Standard Method consists of a simple totaling of the net revenues for each of the eight business lines, multiplied by the factors related to each line, except when it involves the calculation of the capital requirements for operational risk of the retail banking and commercial banking business lines, for which the capital requirement will be calculated by substituting the monthly net revenue of each of these lines of business, for the amount exercised of monthly loans and advances for each business line, multiplied by a fixed factor “m”, which will be 0.035.

The factors to be used by business line are as follows:

Business Unit	% Applicable to each business line
Corporate finance	18
Transactions and sales	18
Retail banking	12
Commercial banking	15
Payments and settlements	18
Agency services	15
Asset management	12
Retail brokerage	12

To calculate the net revenues and the amount exercised of loans and advances, it is essential to consider the amount applicable to the 36 months before the month for which the capital requirement is being calculated, and must be grouped into three periods of 12 months to determine the annual net revenues.

Analysis of the effects as a consequence of the COVID-19 contingency in Seguros BBVA Bancomer and Pensiones BBVA Bancomer.

Derived from the health contingency caused by the SARS-COV2 virus (COVID-19), the impacts that Seguros BBVA Bancomer and Pensiones BBVA Bancomer presented during 2020 are described below:

Implementation and application of the contingency and business continuity plan.

The contingency plan was activated in an agile and timely manner and involved providing all staff with mobile computer equipment and telephone communication, access to applications and remote operating systems in order to operate from home.

During the contingency and to date, both Seguros BBVA Bancomer and Pensiones BBVA Bancomer have no indications of any situation that could be considered as a limitation for the continuity of the business.

Cost of claims

The costs of claims in Seguros BBVA due to COVID-19 cases in life insurance amounted to $942, which represents 10% of the total loss ratio for the 2020 financial year, made up of a total of 4,905 cases. In addition, the actual cost of claims incurred in 2020 affects the calculations for the reserve of incurred but not reported reserves and adjustment expenses assigned to the claim (SONR), so that the actuarial model for this reserve includes the loss ratio in COVID-19 cases, therefore such reserve increased by $546, compared to 2019.

Technical reserves

Life insurance linked to personal or consumer loans has a single premium and its validity is long-term in Seguros BBVA, Bancomer, which corresponds to the term of the loan. The support that the credit institutions granted to clients who requested consisted on a waiting period of up to four months in the amortization of the loan, which involved extending the validity, so that in these products the inflows and outflows for the adjustment in technical reserves according to the calculation methodology remained fixed for up to four months and were reactivated after the aforementioned extension period.

Given that retirees are a highly exposed population to this virus, the only impact that occurred in Pensiones BBVA at the end of December 2020 were deaths related to the pandemic, since they generated releases in the mathematical reserve for $254, corresponding to 482 cases.

Effects of the materialization of other risks

Seguros BBVA Bancomer recognized a participation of reinsurers in COVID-19 claims from catastrophic non-proportional reinsurance contracts for $851.

Impacts on written premiums

As part of the health measures adopted by Seguros BBVA Bancomer, it closed branches from April to July 2020 and subsequently reopened in August; however, it did so in shortened schedule, producing a decrease in business origination, as shown in the income statement, mainly in the flexible life insurance product MLB (for its acronym in spanish “MLB” Multiestrategia Libre BBVA).

Increase in the cost of claims

Some policyholders found it necessary to rescue their policies to obtain funds, increasing the cost of claims of Seguros BBVA Bancomer due to direct insurance rescues in 2020 for $1,230.

Acquisition cost

During 2020, the acquisition cost in Seguros BBVA Bancomer presented a decrease compared to 2019, mainly motivated by a lower business origination by adopting, as a sanitary measure, the closure of branches during the first months of confinement, and subsequently the cut in customer service hours; consequently, since the determination of the commission generated for business partners is directly related to the issuance of premiums, this effect occurs.

The general objective of the risk management policies is to avoid material losses derived from the Group's exposure to risks. The support programs mentioned in note 9 have not generated uncertainty about the continuity of the Group as a going concern. Proof of this are the levels of the financial indicators disclosed in note 35, which reflect the financial stability of the entity.

(35) Financial indicators (unaudited)-

As of December 31, 2020 and 2019, according to article 182 of the Regulations, the Group’s financial indicators are as follows:

	2020	2019
Delinquency ratio	3.0%	2.2%
Hedge ratio of portfolio of non-performing loans	129.0%	129.30%
Operating efficiency	2.60%	2.80%
ROE	16.80%	25.00%
ROA	1.70%	2.50%
Capitalization ratio credit and market risk	17.51%	15.60%
Basic capital 1 on credit, market and operational risk	14.40%	12.50%
Liquidity	76.80%	73.10%
Net adjusted interest margin (MIN) /Average Productive Assets	3.80%	4.70%

(36) Ratings-

As of December 31, 2020, the ratings assigned to main subsidiaries the Group are as follows:

	Global Scale ME		National Scale		
Ratings Agency	Long Term	Short Term	Long Term	Short term	Perspective
Bank					
Standard &Poor's	BBB	A-2	Mx AAA	mxA-1+	Negative
Moody's	Baa1	P-2	Aaa.mx	MX-1	Negative
Fitch	BBB	F2	AAA (mex)	F1+ (mex)	Stable
Casa de Bolsa BBVA Bancomer					
Moody's	Baa1	P-2	Aa1.mx	MX-1	Negative
Fitch	N/A	N/A	AAA (mex)	F1+ (mex)	Stable
Seguros BBVA Bancomer					
Fitch	N/A	N/A	AAA (mex)	N/A	Stable
Pensiones BBVA Bancomer					
Fitch	N/A	N/A	AAA (mex)	N/A	Stable
Seguros Salud					
Fitch	N/A	N/A	AAA (mex)	N/A	Stable

(37) Commitments and contingent liabilities-

(a) Leases-

The Group leases buildings and premises occupied by some retail branches, as well as computer equipment and software licenses mainly, according to lease agreements with different terms. For years ended as of December 31, 2020 and 2019, the total expense for leases amounted to $6,236 and $5,842, respectively and is included in the heading "Administrative and promotional expenses" in the consolidated statement of income.

(b) Contingencies

As of December 31, 2020 and 2019, there are claims against the Group in ordinary civil and commercial actions, as well as assessments by the tax authorities; however, in opinion of its lawyers, claims filed are considered inadmissible and, in the event of unfavorable resolutions, they would not significantly affect the Institution's financial condition. For such purposes, as of December 31, 2020 and 2019, the Group has weighted the impacts of each one of them and has recorded a reserve for these contentious matters of $654 and $641, respectively.

The legal contingencies movement for the 2020 and 2019, financial years is as follows:

Initial balance 2020	Reserve	Application	Ending balance 2020
$641	208	(195)	654

Initial balance 2019	Reserve	Application	Ending balance 2019
$469	371	(199)	641

As of December 31, 2020 and 2019, there are claims against the Group in labor actions; however, in opinion of its lawyers, claims filed are considered inadmissible and, in the event of unfavorable resolutions, they would not affect significantly the Group's financial condition. For such purposes, as of December 31, 2020 and 2019, the Group has weighted the impacts of each claim and has recorded a reserve for these labor matters of $718 and $683, respectively, as indicated below:

The movement of the clams against the Institution in labor actions for the 2020 and 2019, is as follows:

Initial balance 2020	Reserve	Application	Ending balance 2020
$683	123	(88)	718

Initial balance 2019	Reserve	Application	Ending balance 2019
$719	128	(164)	683

For the type of contingencies referred to in the previous descriptions and to depend on the third-party performance, it is impractical to quantify the inputs or out puts of resources, as well as the eventuality obtaining reimbursements.

(38) Regulatory pronouncements recently issued-

(a) Accounting Criteria

On January 4, 2018, the Commission released, through the Official Gazette of the Federation (for its acronym in Spanish "DOF"), the sole transitory article of an amending resolution, which provides for the incorporation of new FRS issued by the CINIF within the accounting criteria A-2 "Application of Specific Rules" contained in Annex 5 of the Banking Regulations, where the application and entry into force for credit broker-dealer firms of said FRS as of January 1, 2019 was established, however, on November 4, 2019, the Commission announced through the DOF the amendment to the aforementioned transitory article, which provides for its application and entry as of January 1, 2021. Subsequently, through a subsequent amendment to said published article in the DOF on November 9, 2020, January 1, 2022 was established as the date of application and entry into force of said FRS. The FRS that are incorporated into accounting criteria A-2 of the amending resolution are those mentioned in the next page.

Mexican FRS B-17 "Fair value measurement" - Defines fair value as the exit price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date. It is mentioned that fair value is a determination based on the market and not on a specific value of an asset or a liability and that when determining fair value, the entity must use assumptions that market participants would use when setting the price of an asset or a liability under current market conditions at a given date, including assumptions about the risk. As a result, the entity's intention to hold an asset or liquidate, or otherwise satisfy a liability, is not relevant in the determination of fair value.

Mexican FRS C-3 "Accounts receivable" - The main characteristics issued for this Mexican NIF, are shown below:

- It cancels Bulletin C-3 "Accounts receivable."

- Specifies that accounts receivable that are based on a contract represent a financial instrument, while some of the other accounts receivable generated by a legal or fiscal provision may have certain characteristics of a financial instrument, such as generating interest, but they are not financial instruments in themselves.

- It states that the allowance for collectability for trade accounts receivable is recognized from the moment in which the income accrues, based on the expected credit losses.

- It states that, since the initial recognition, the value of money over time should be considered, so if the effect of the present value of the account receivable is important in consideration of its term, it should be adjusted based on said present value. The effect of the present value is material when the collection of the account receivable is agreed, totally or partially, for a term greater than one year, since in these cases there is a financing operation.

Mexican FRS C-9 "Provisions, contingencies and commitments" - It cancels Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities and commitments", its scope is reduced by relocating the topic related to the accounting treatment of financial liabilities in the Mexican NIF C-19 "Financial instruments payable" and the definition of liability is modified by eliminating the qualifier "virtually unavoidable" and including the term "probable".

Mexican FRS C-16 "Impairment of financial instruments receivable"- It states that in order to determine the recognition of the expected loss of financial instruments receivable, the historical experience of the credit loss entity, the current conditions and the reasonable and sustainable forecasts of the different quantifiable future events that could affect the amount of future cash flows should be considered.

It also indicates that the expected loss should be recognized when, as the credit risk has increased, it is concluded that a part of the future cash flows of the financial instruments' receivable will not be recovered. The accounting changes that arise should be recognized retrospectively.

Mexican FRS C-19 "Financial instruments payable" -

The main characteristics issued for this Mexican NIF are shown below:

- It is established the possibility of valuing certain financial liabilities at fair value, once certain conditions are met, sub sequent to their initial recognition.

- Value long-term liabilities at their present value at initial recognition.

- When restructuring a liability, without substantially modifying the future cash flows to settle the same, the costs and commissions paid in this process will affect the amount of the liability and be amortized over a modified effective interest rate, instead of directly impacting the net profit or loss.

- It incorporates the provisions of IFRIC 19 "Extinction of Financial Liabilities", a topic that was not included in the existing regulations.

- The effect of extinguishing a financial liability must be presented as a financial result in the statement of comprehensive income.

- Introduces the concepts of amortized cost to value the financial liabilities and the effective interest method, based on the effective interest rate.

Mexican FRS C-20 "Financial instruments to collect principal and interest" - The main characteristics issued for this Mexican NIF, are shown below:

- The way to classify the financial instruments in assets is modified, since the concept of intention of acquisition and possession of these is discarded to determine their classification, instead the concept of business model of the administration is adopted.

- This classification groups financial instruments whose objective is to collect the contractual cash flows and obtain a gain for the contractual interest they generate, having a loan characteristic.

- They include financial instruments generated by sales of goods or services, financial leases or loans, as well as those acquired in the market.

Mexican FRS D-1 "Revenue from contracts with clients" - The main characteristics issued for this Mexican NIF are shown below:

- The transfer of control, basis for the opportunity of revenue recognition.
- The identification of the obligations to fulfill in a contract.
- The allocation of the transaction price between the obligations to be fulfilled based on the independent sale prices.
- The introduction of the concept of conditioned account receivable.
- The recognition of collection rights.
- The valuation of income.

Mexican FRS D-2 "Income, costs from contracts with clients"- The main change in this standard is the separation of the regulations regarding the recognition of revenues from contracts with clients of the regulations corresponding to the recognition of costs for contracts with clients.

Mexican FRS D-5 "Leases" – It comes into force for the years that start on January 1, 2022. It supersedes Bulletin D-5 "Leases." The application for the first time of this Mexican NIF generates accounting changes in the financial statements mainly for the lessee and grants different options for recognition. Among the main changes are the following:

- Eliminates the classification of leases as operative or capitalizable for a lessee, and the latter must recognize a lease liability to the present value of the payments and an asset for the right of use for that same amount, of all the leases with a duration greater than 12 months, unless the underlying asset is of low value.

- An expense is recognized for depreciation or amortization of assets for right of use and an interest expense on lease liabilities.

- It modifies the presentation of the related cash flows since the cash flow outflows of the operating activities are reduced, with an increase in the outflows of cash flows from the financing activities.

- Modifies the recognition of the gain or loss when a seller-lessee transfers an asset to another entity and leases that asset back.

- The accounting recognition by the lessor does not change in relation to the previous Bulletin D-5, and only some disclosure requirements are added.

(b) Improvements to 2021 Mexican FRS

In December 2020, the CINIF issued the document called "Improvements to Mexican NIF2021," which contains specific amendments to some existing Mexican NIF. The main improvements that generate accounting changes are as follows:

FRS B-1 "Accounting changes and error corrections" - To converge with IAS 8 of the International Financial Reporting Standards, prospective application is incorporated when it is impractical to determine the cumulative effects of an accounting change or the correction of an error. In those cases, the entity should recognize the effects of the change in the error correction in the current accounting period.

The amendment to this NIF becomes effective for the fiscal years beginning January 1, 2021; allowing its early application for the 2020 fiscal year. The accounting changes that arise must be recognized through prospective application.

FRS C-19 "Financial instruments payable" – Provides that now the proceeds from forgiveness received or granted should be presented within the results related to operating activities, instead of being presented in comprehensive income.

FRS C-20 "Financial instruments to collect principal and interest" – Provides that now the effects of the renegotiation of a financial instrument to collect principal and interest (IFCPI) must be presented within the results related to operating activities, instead of being presented in comprehensive income.

FRS D-5 "Leases" - 1) States that the mandatory disclosures of the expense related to short-term and low-value leases for which the right-of-use asset has not been recognized, must be made separately. 2) It incorporates the method to determine the proportion that corresponds to the rights of use retained by the seller-lessee, as well as their accounting recognition.

Management is conducting a process to determine the effects of adopting the accounting criteria and the improvements to the Mexican FRS in consolidated financial statements.

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