Banco de México

Financial Statements
December 31, 2019

(With comparative figures as of December 31, 2018)

(With Independent Auditors' Report Thereon)

(Translation from Spanish language original)

Banco de México

Contents

December 31, 2019 (with comparative figures as of December 31, 2018)

FIRST SECTION	Page
Independent Auditors' Report	1
Financial Statements	
Balance sheet	4
Statement of comprehensive income	5
Statement of changes in equity	6
SECOND SECTION	
Notes to financial Statements	
Note 1. – Legal framework and nature of operations	7
Note 2. – Summary of significant legal and accounting practices for recognition, measurement, presentation and disclosure of Banco de México´s operations	9
Note 3. – Risks management	19
THIRD SECTION	
Note 4. – Analysis of specific line items and exchanges rates for the years	22
Note 5. – Subsequent events	29

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Independent auditors' report
(Translation from Spanish Language Original)

The Board of Governors
Banco de México:

Opinion

We have audited the financial statements of Banco de México, which comprise the balance sheet as of December 31, 2019, the statements of comprehensive income and of changes in equity for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of Banco de México have been prepared, in all material aspects, in accordance with the Financial Reporting Standards of Banco de México (FRS BdM) and the financial reporting requirements established in the Banco de México´s Law and Internal Regulations.

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 Financial Statements"* section of our report. We are independent of Banco de México in accordance with the ethical requirements that are relevant to our audit of the financial statements in México, 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with FRS BdM, the financial reporting requirements established in the Banco de México's Law and Internal Regulations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing Banco de México´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 as a consequence of a constitutional change or in the Law either intends to liquidate Banco de México or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Banco de México´s financial reporting process.

(Continued)

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Auditor´s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Banco de México'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 Banco de México'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 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, extraordinary future events or conditions may cause Banco de México to cease to continue as a going concern.

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

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

(Continued)

Other issues

The financial statements of Banco de México as of December 31, 2018, and for the year then ended, were audited by other auditors, who issued an unqualified opinion dated March 12, 2019.

KPMG Cardenas Dosal, S. C.

RÚBRICA

Ricardo Delfin Quinzaños

Mexico City, March 27, 2020.

Banco de México

Balance sheet

December 31, 2019 (with comparative figures as of December 31, 2018)

Amounts in millions of pesos

These financial statements have been translated from the Spanish language original and for the convenience of foreign / English-speaking readers.

Assets	2019	2018
International reserves (Notes 2c. and 4a.)	$ 3,412,103	$ 3,434,883
International assets	3,452,671	3,466,159
Liabilities to be deducted	(40,568)	(31,276)
Credit granted to the Federal Government (Note 2d.)	-	-
Government securities (Note 2e.)	-	-
Credit granted to banks and debtors from repo operations (Notes 2f. and 4b.)	347,651	366,819
International financial organizations (Notes 2g. and 4c.)	13,862	14,440
Property, furnishing and equipment (Notes 2h. and 4d.)	6,434	6,572
Other assets (Notes 2i. and 4e.)	27,291	27,454
Total assets	$ 3,807,341	$ 3,850,168

Liabilities and equity	2019	2018
Monetary base (Notes 2j. and 4f.)	$ 1,742,475	$ 1,674,211
Banknotes and coins in circulation	1,740,934	1,673,205
Bank deposits in current account	1,541	1,006
Federal Government current account deposits (Note 2k.)	403,137	365,979
Other Federal Government deposits (Notes 2l. and 4g.)	144,961	279,116
Monetary regulation liabilities (Notes 2m. and 4h.)	1,464,673	1,312,195
Monetary regulation deposits	1,283,106	1,083,532
Government securities	1,067,853	868,293
Banks	215,253	215,239
Monetary regulation bonds	105,127	105,120
Other deposits from banks and creditors from repo operations	76,440	123,543
Deposits from Mexican Oil Stabilization and Development Fund (Note 2n.)	164	276
International Monetary Fund (Notes 2o. and 4j.)	-	-
Special Drawing Rights (Notes 2p and 4j.)	74,376	77,925
Other liabilities (Notes 2q. and 4k.)	90,091	86,445
Total liabilities	3,919,877	3,796,147
Equity (Note 2r.):		
Capital	8,885	9,015
Capital reserves	45,079	144,443
Net loss	(166,444)	(99,438)
Other comprehensive income (Note 2t.)	(56)	1
Total equity	(112,536)	54,021
Total liabilities and equity	$ 3,807,341	$ 3,850,168

Memorandum accounts (Notes 2u. and 4l.) (unaudited)	2019	2018
	$ 32,168,846	$ 28,889,684

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

RÚBRICA

Gerardo Mauricio Vázquez de la Rosa
Director General of Administration

RÚBRICA

Alejandro Díaz de León Carrillo
Governor

RÚBRICA

Víctor Moisés Suárez Picazo
Director of Accounting, Planning and Budgeting

Banco de México

Statement of comprehensive income
For the year ended December 31, 2019
(with comparative figures for the year ended on December 31, 2018)

Amounts in millions of pesos

These financial statements have been translated from the Spanish language original and for the convenience of foreign / English-speaking readers.

	2019		2018	
Financial income:				
International reserves		$ 123,658		$ 48,705
Credit granted to banks and debtors from repo operations:		23,261		21,752
Commercial banks	$ 17		$ 71	
Development banks	340		280	
Repos	22,904		21,401	
Other income		11,489		6,990
Total financial income		158,408		77,447
Financial expenses:				
Federal Government deposits		55,320		52,458
Monetary regulation liabilities:		112,164		98,982
Monetary regulation deposits:	98,649		87,291	
Government securities	81,051		70,575	
Banks	17,598		16,716	
Monetary regulation bonds	8,595		8,164	
Deposits from banks and creditors from repo operations	4,920		3,527	
Commercial banks	4,311		3,361	
Development bank	609		166	
Repos	-		-	
Mexican Oil Stabilization and Development Fund		293		749
International Monetary Fund		4,124		5,277
Special Drawing Rights		754		726
Other expenses		8,326		9,340
Total financial expenses		180,981		167,532
Net loss		(22,573)		(90,085)
Currency exchange effects		(138,061)		(2,734)
Financial loss		(160,634)		(92,819)
Operating expenses:				
Administrative expenses		3,778		3,798
Depreciation and amortization		659		598
Cost of banknotes and coins in circulation		1,535		3,071
Total operating expenses		5,972		7,467
Other income (net of other expenses)		162		848
Total net loss		(166,444)		(99,438)
Other comprehensive income		(57)		(128)
Comprehensive loss for the year		$ (166,501)		$ (99,566)

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

RÚBRICA	**RÚBRICA**	**RÚBRICA**
Gerardo Mauricio Vázquez de la Rosa Director General of Administration	Alejandro Díaz de León Carrillo Governor	Víctor Moisés Suárez Picazo Director of Accounting, Planning and Budgeting

Banco de México

Statement of changes in equity
For the year ended December 31, 2019
(with comparative figures for the year ended on December 31, 2018)

Amounts in millions of pesos

These financial statements have been translated from the Spanish language original and for the convenience of foreign / English-speaking readers.

Item	Capital	Surplus	Net loss	Other comprehensive income	Net loss of prior year	Asset revaluation reserve	Financial network reserve	Capital reserve	Total equity
Balances as of December 31, 2017	**$ 5,406**	**$ 3,527**	**$ (240,142)**	**$ 129**	**$ -**	**$ 268,002**	**$ 310**	**$ 116,247**	**$ 153,479**
Allocation of net loss to accumulated deficit			240,142		(240,142)				-
Loss amortized in the year					240,142	(240,142)			-
Inventories reappraisal		82							82
Financial network transactions							26		26
Comprehensive loss for the year			(99,438)	(128)					(99,566)
Balances as of December 31, 2018	**$ 5,406**	**$ 3,609**	$ (99,438)	**$ 1**	**$ -**	**$ 27,860**	**$ 336**	**$ 116,247**	**$ 54,021**
Allocation of net loss to accumulated deficit			99,438		(99,438)				-
Loss amortized in the year					99,438	(27,860)		(71,578)	-
Inventories reappraisal		(130)							(130)
Financial network transactions							74		74
Comprehensive loss for the year			(166,444)	(57)					(166,501)
Balances as of December 31, 2019	**$ 5,406**	**$ 3,479**	$ (166,444)	**$ (56)**	**$ -**	**$ -**	**$ 410**	**$ 44,669**	**$ (112,536)**

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

RÚBRICA

Gerardo Mauricio Vázquez de la Rosa
Director General of Administration

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Alejandro Díaz de León Carrillo
Governor

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Víctor Moisés Suárez Picazo
Director of Accounting, Planning and Budgeting

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Note 1.- Legal framework and nature of operations:

Legal framework -

Banco de México (Bank or Central Bank) is a public and autonomous institution. Its objectives, functions, operations and management are regulated by the Banco de México Law (the Law), which regulates Paragraphs 6 and 7 of Article 28 of the Political Constitution of the United Mexican States, and for the Banco de México's Internal Regulations (Internal Regulation).

The Bank is a non-for-profit institution and shall deliver the full amount of its operating surpluses to the Federal Government once the required reserves prescribed by Law have been created.

Description of activities -

Management -

The Bank's operations and management are led, within their respective scopes of duty, by a Board of Governors and the Governor of Banco de México. The Board of Governors consists of the Governor and four Deputy Governors.

The Board members are appointed by the President of México and approved by either the Senate or the Permanent Commission of the Congress. Board meetings must be attended by at least three Board members. Board meetings are chaired by the Governor or, if the Governor is not present, by a Deputy Governor, in accordance with the procedures established in the Law. For a resolution to stand, it requires a majority vote. The Board member presiding over the session shall have the deciding vote in case of a tie. The Minister and the Under-Minister of Finance and Public Credit (for its acronym in Spanish, "SHCP") may attend Board meetings but cannot vote on resolutions. These officials may call Board meetings and suggest matters for discussion.

Objectives and functions -

The Bank is responsible for the provision of cash to the Mexican economy. To fulfill its statutory objective, the Bank's primary objective is procuring the stability of the purchasing power of the Mexican peso. In addition, the Bank shall promote a safe development of México's financial system and encourage an efficient payment system. To this end, the Bank carries out the following functions:

a. Regulate the issuance and circulation of currency, foreign currency exchange, intermediation and financial services, and payment systems.

b. Operate as the reserve bank and ultimate lender for credit institutions.

c. Provide treasury services to the Federal Government and act as its financial agent.

d. Act as an economic and financial advisor to the Federal Government.

e. Participate in the International Monetary Fund (IMF) and other international financial cooperation institutions or those embodying central banks.

f. Operate with the aforementioned organizations, referred in letter "e" above, central banks and other foreign legal entities that act as financial authorities.

Activities -

In the normal course of its operations as a central bank, the Bank carries out the following activities:

a. Securities transactions.

b. Credit granted to the Federal Government (see Note 2d.), to credit institutions and also to the decentralized government agency called the Institute for Bank Savings Protection (for its acronym in Spanish, "IPAB").

c. Credit granted to the organizations referred in letter "f" of the preceding section.

d. Make deposits in credit institutions or securities depositories, both in México and abroad.

e. Acquire securities issued by international financial organizations or foreign entities, as set forth in Article 20, Section II of the Law.

f. Issue monetary regulation bonds.

g. Receive monetary bank deposits from the Federal Government, from Mexican and foreign financial entities, from public economic development trusts and from the entities referred in letter "k" below, from securities depositories, as well as public federal agencies, when required by law.

h. Receive monetary bank deposits from the organizations referred in letter "f" of the preceding section.

i. Obtain loans from the organizations referred in letter "f" of the preceding section and from foreign financial entities exclusively for purposes of foreign currency exchange regulation, and post cash or securities guarantees for the financial transactions carried out with such organizations as set forth in the Law for management of the international reserves.

j. Carry out transactions with foreign currency, gold and silver, including repos.

k. Act as trustee when required by law, or for those trusts that assist the Bank in fulfilling its mandate or trusts that the Bank creates to comply with its labor obligations.

l. Receive deposits of securities or titles, either for safekeeping or as managed funds, from the entities referred in letter "g" and "h" above. The Bank may receive also other types of deposits from the Federal Government.

The Bank as financial authority -

The Bank as financial authority, as set forth in the Law, is authorized to issue regulations solely for monetary or exchange control purposes, to maintain the sound development of México's financial system, the effective operation of the payment systems, and the protection of public interest, without prejudice to any other regulations the Bank is authorized to issue under any other law in the scope of action of each one. The regulations issued by the Bank shall apply on a general basis and may refer to one or several types of financial intermediaries, transactions, zones or locations. In addition, the Bank can impose fines on financial intermediaries for transactions or services that do not comply with the Law or with the Bank's regulations. The Bank can suspend a portion or the entirety of transactions with financial intermediaries that infringe the Law or any of its provisions.

With respect to foreign currency exchange, the Bank acts in accordance with the guidelines of the Exchange Commission, comprised of the SHCP Minister and Under-Minister, any other under-minister appointed by the SHCP Minister, the Governor of Banco de México and two Deputy Governors appointed by the Governor. The members of the Exchange Commission have no alternates and all resolutions require a majority vote, with at least one in favor by an SHCP representative. The Commission's sessions are chaired by the SHCP Minister; if the SHCP Minister is absent, sessions are chaired by the Governor; if both are absent, the session is chaired by the Under-Minister appointed by the SHCP Minister. The person who chairs the meeting has the deciding vote in case of a tie.

The Exchange Commission makes decisions, among others, related to defining the criteria that the Bank will follow to issue directives for regulating transactions with foreign currencies, gold and silver carried out by credit institutions, securities brokers, currency exchanges, and other intermediaries that are part of a financial group.

Tax regime -

In accordance with Article 79, Section XXIII, and Article 86 of the Mexican Income Tax Law (MITL) effective in 2019, the Bank is not subject to the payment of income tax and is only obliged to withhold and remit income tax and obtain tax receipts when it makes payments to third parties and such third parties are required to issue such receipts under the MITL, and to issue and deliver tax receipts to the individuals to whom the Bank makes salary payments and to those who provide personal subordinated services to the Bank, on the date that the payment is made.

Annually, the Bank's compliance with its obligations with respect to value added tax, income tax, payroll tax and other local taxes, as well as the Bank's financial statements, are reviewed and audited by the public accounting firm appointed by the SHCP Minister and authorized by the Oversight Commission of the Supreme Federal Audit Office as the Bank's independent auditor.

Supreme Federal Audit Office and other audit authorities -

In accordance with the provisions found in specific laws, the Supreme Federal Audit Office and other audit authorities have the power to audit the Bank.

Note 2.- Summary of significant legal and accounting practices for recognition, measurement, presentation and disclosure of Banco de México´s operations:

a. Basis of presentation and disclosure -

The financial statements have been prepared in accordance with the financial reporting requirements set out in the Banco de México´s Law and its Internal Regulations, and with the Financial Reporting Standards of Banco de México (FRS BdM)[1], which has a favorable opinion of the Mexican Financial Reporting Standards Board (for its acronym in Spanish, "CINIF").

In accordance with Article 54 of the Law, the Bank's fiscal year runs from January 1 through December 31.

[1] Set of guiding, conceptual and specific pronouncements issued by the Bank that address the information presented in the Bank's financial statements and notes and that, through FRS BdM, establish the specific basis for measurement, presentation and disclosure of transactions, internal restructurings and other events that have an economic impact on the Bank and which must be recognized in the Bank's financial reporting.

The financial statements and notes are presented in millions of Mexican pesos. For disclosure purposes in the notes of financial statements, when there is reference to pesos or $, these are Mexican pesos; when there is reference to dollars, the amounts are in U.S. dollars or USD and when there is reference to UDI, it is indicating the Investment Units. The value of the UDI is linked to México's inflation rate as determined by the Bank.

Foreign currency denominated balances are translated daily into Mexican pesos and are first translated into U.S. dollar using the exchange rates prevailing in international markets for currencies and metals. These U.S. dollar balances are then translated into Mexican pesos using the so-called FIX exchange rate determined and published by the Bank. Exchange gains and losses are recognized in profit or loss as they are accrued.

UDI-denominated balances are translated into Mexican pesos at the UDI value for the day and exchange gains and losses are recognized in profit or loss.

The Bank presents profit or loss in a statement of comprehensive income, since it has components of other comprehensive income (OCI). The Bank presents its ordinary costs and expenses on a combined function and nature basis, which makes it possible to reflect the amount of financial expenses and associate them to their origin.

Use of estimates and judgments -

The preparation of financial statements requires management to make a number of estimates and assumptions that could affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions. When assets and liabilities whose book value have been determined at fair value using information recently observed, real results may differ from these estimates mainly due to future changes in the value market.

Measurement of fair values -

A number of the Bank's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Bank has an established control framework with respect to the measurement of fair values. Thus, Bank has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

When determining the fair value of an asset or a liability, the Bank uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Fair value determination trough quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value determination trough inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value determination trough unobservable data or inputs.

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. As of December 31, 2019, all the assets and liabilities measurement at fair value are level 1.

b. Business models -

The FRS BdM related to financial instruments, require the Bank to classify its investments in financial instruments based on a business model rather than the specific intent for which certain financial instruments were acquired.

The business model is based on the overall way the Bank manages its financial instruments, which are presented in the financial statement, in order to accomplish the Bank´s priority objective and purposes, on the lookout for the efficiency of resources allocation.

The Bank has two business models:

Under the first business model, the Bank classifies its financial assets as Negotiable Financial Instruments (NFI), comprised of investments that are managed according to the Bank's objectives rather than to obtain a profit from the sale or to collect principal or interest. This is the case even when the Bank collects contractual cash flows or holds certain instruments to maturity. NFI are stated at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss for the year.

Another business model distinguishes a second group of assets designated as financial instruments to collect principal and interest (FICPI), which mainly derive from funding transactions that the Bank carries out to maintain the Mexican peso's purchasing power, as well as to promote a sound development of the financial system. IFCPIs are not subject to negotiation and despite of having the characteristic of collecting contractual cash flows, the Bank´s reason to hold these assets does not necessarily correspond to obtain such flows. FICPI are initially recognized at fair value and subsequently are measured at amortized cost using the effective interest method, except when the Bank irrevocably designates them at initial recognition to be subsequently valued at fair value, provided that this prevents accounting mismatch. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss for the year.

Due to the characteristics of the Bank, it is not expected that there will be frequent changes in the business models for managing financial assets, resulting in reclassifications of financial instruments.

c. International reserves -

The international reserve helps maintaining the Mexican peso's purchasing power and is comprised, in accordance with Articles 19 and 20 of the Law, as follows:

- Foreign currencies and gold, owned by the Bank, which are unencumbered and unrestricted;

- The debit balance between México's IMF holdings and the Bank's IMF liability (IMF Reserve Tranche);

- Foreign currencies obtained from financing derived from exchange regulation purposes, which are provided by international financial cooperation organizations, central banks and other foreign legal entities that act as financial authorities.

Foreign currencies include:

- Banknotes and coins from foreign economies;

- Deposits, titles, securities and other debt obligations payable outside of México, considered to be first rate in international markets, denominated in foreign currency, issued by foreign governments or by international financial organizations or entities, with maturities of no more than six months or highly liquid securities;

- Loans extended to central banks, payable within six months and whose payments are current and performing, and

- IMF Special Drawing Rights (SDR).

The reserve amount excludes receivable currency deposits from Mexican peso in buy-sell transactions, and the Bank's currency and gold liabilities are deducted, except for those with maturities of more than six months and the above-mentioned loans.

Consequently and in accordance with the business model, the assets included as international reserve are considered NFI. This line item is primarily comprised of investments in foreign securities and titles represented by highly liquid instruments measured originally at fair value, which is updated daily, likewise investments represented by deposits at fair value, which corresponds to their nominal value. These instruments may not be restricted and are presented net of the Bank's currency obligations, comprised of liabilities payable within six months, including foreign currency sales transactions.

d. Credit granted to the Federal Government -

In accordance with Articles 11 and 12, Section IV, of the Law, the Bank may grant loans to the Federal Government only through the current account that the Federal Treasury hold at the Bank. The debit balance of this current account cannot exceed 1.5% of the total expenditure of the Federal Government as set out in the Federal Expense Budget for the corresponding year, excluding the amounts that have been earmarked for Federal Government´s internal debt payments except when, in rare circumstances, there is a significant increase in the temporary differences between public revenue and public expenditure. Securities issued by the Federal Government owned by the Bank are not considered in this calculation.

If the debit balance of the account exceeds the aforementioned limit, the Bank must issue securities backed by the Federal Government on its behalf for the excess amount.

As a result, this line item presents the credit that could be extended to and payable by the Federal Government and it would be considered according to the business model as a FICPI. The credits granted are stated at amortized cost and bear interest at market rates, which is recognized in profit or loss using the effective interest rate. The Bank has not granted credit to the Federal Government.

If the Treasury's current account reflects a credit balance, this amount is presented as part of the *Federal Government current account deposits*.

e. Government securities -

In accordance with Article 9 of the Law, Federal Government securities acquired by the Bank are offset with deposits, mandatorily held to maturity, made with the Bank by the Federal Government with the proceeds from the allocation of the referred securities (monetary regulation deposits). The amounts, terms and interest rates of these deposits are the same as those of the securities acquired by the Bank. These deposits may not be withdrawn until the associated securities mature; i.e. the Federal Government cannot use or spend the deposits before the maturity date.

As stipulated in article 38 of the Internal Regulation, this line item shows the net debit balance calculated as the difference between the government securities owned and the monetary regulation deposits held. When this line item has a credit balance, it is presented as part of the *Government Securities* in *Monetary Regulation Liabilities* (see Note 2m).

For auctions of Government securities sold for monetary regulation purposes, the Bank carries a net credit balance for the amount of monetary regulation deposits exceeding the amount of the Government securities owned.

The management of Federal Government securities and the creation of the associated deposits are carried out for monetary regulation purposes. These deposits and securities are measured daily at their fair values.

f. Credit granted to banks and debtors from repo operations -

This line item consists of credits and loans granted to banks in accordance with Article 7, Section II of the Law, as well as the net debit balance of the accounts under *Bank deposits in current account*, if applicable.

This line item also includes the Bank's assets under repo agreements. Under these agreements, the Bank, in accordance with Circular 3/2012, is the repo seller in transactions carried with Mexican financial institutions, as stated in Article 7, Sections I, II and X, Articles 14, 16, 24, 26 of the Law.

Securities under repo agreements and the liability associated with the securities that will be delivered to the buyer when the term expires are maintained updated at fair value, using prices supplied by an independent price vendor. These two balances and the corresponding restatement effects are offset both in the balance sheet and in profit or loss, considering that there is a legal right and the intention to settle on a net basis.

Credits and loans granted to banks are classified in accordance to business model as FICPI and therefore are initially recognized at fair value and subsequently are measured at amortized cost using the effective interest method and bear interest at the contractually agreed rates, as well as the interest and premiums from repos are recognized in profit or loss as they accrued.

In addition, this line item includes the offsetting balances of credits and deposits arising from the Mexican weighted interbank interest rate (for its acronym in Spanish, "TIIE") rate-setting process. Those credits and deposits bear interest and are stated at amortized cost.

g. International financial organizations -

This line item is comprised of contributions to international financial organizations (excluding the IMF) that were made on behalf of the Federal Government before the Bank became an autonomous body. These holdings are recognized in either Mexican pesos or foreign currencies. Mexican peso-denominated contributions are restated based on the foreign currency equivalent determined on the day they were made, and the related exchange gains and losses are recognized in profit or loss.

h. Property, furnishing and equipment -

Property, furnishing and equipment are initially recognized at acquisition cost, plus costs incurred to build or enhance assets owned by the Bank, or costs incurred to replace or enhance the asset leased by the Bank.

Depreciation is calculated on a straight-line basis over the estimated useful lives, using as a reference the rates established in the MITL.

As of January 1, 2013, the Bank ceased restating the acquisition cost of its investments in fixed assets, which through that date were restated by inflation based on the National Consumer Price Index. The inflation restatement increment recognized through 1 January 2013 as part of the value of the investment will continue to be depreciated following the above-mentioned policies.

Assets that the Bank continues to use are not subject to impairment. Impairment is only calculated when the Bank decides to dispose the asset onerously or for free.

i. Other assets -

This line item consists primarily of the following:

- Inventories related to banknote printing and acquisition of coins - These inventories include raw materials for the issuance of banknotes and coins, the latter of which is recognized at acquisition cost (minting cost), as well as the storage of work in progress and finished banknotes, measured using a standard cost method based on production orders. Inventories are restated at replacement value; i.e. their net realizable value, corresponding the price of the last purchase. The restatement effect is recognized in equity under *Inventories reappraisal*. In accordance with Article 56 of the Law, costs incurred in printing banknotes and acquiring coins are recognized in profit or loss at the time the currency is put into circulation.

- Assets designated as cash flow hedges. These assets are denominated in a variety of currencies. Similarly to other foreign currency-denominated assets, they are translated into Mexican pesos after first being translated into U.S. dollars at the prevailing exchange rate using the "FIX" exchange rate published by the Bank. In accordance with FRS BdM C-10 "*Derivative Financial Instruments and Hedging Relationships"*, when an asset is classified as a cash flow hedge, gains or losses arising from mark to market valuation are recognized as part of *OCI* in equity, until it is realized.

- IMF fees paid in advance – Includes the unaccrued amount of the annual fee that the Bank pays in SDRs to the IMF at the time it ratifies its Flexible Credit Line (FCL) [2]. This amount is translated into Mexican pesos at the prevailing exchange rate on the date of the transaction and is charged to profit or loss as it accrues.

- Assets under currency hedge auctions - In 2017, the Exchange Commission, aiming to foster an improved exchange market, announced that it had ordered the Bank to implement a program of currency hedges payable at maturity for gains and losses against the Mexican peso. This program allows the Bank to offer foreign currency risk hedges without the need to tap into its international reserves. A debit/(credit) balance corresponds to the accrued unpaid amount in Mexican pesos due from/(due to) the banking institutions and due from/(due to) the Bank arising from the daily measurement of open currency hedges assigned thereto under the auctions established in Circular 3/2017 and its amendments in Circular 5/2017 and 6/2017. Gains or losses arising from the valuation of foreign currency hedges are recognized in profit or loss as accrued.

[2] Credit facility approved in March 2009 by the IMF Executive Board to qualified countries with strong macroeconomic fundamentals and consistent policy track records for economic growth and stability. Qualified countries may access financial resources in order to face adverse economic conditions.

Since the IMF incurs opportunity costs to maintain resources available under the FCL, qualified countries must pay an annual commitment fee to the IMF.

- Other equity investments - Equity investments that the Bank has acquired in other entities in accordance with Article 63, Section III of the Law, which are carried at cost[3]. Dividends earned from equity investments are recognized in profit or loss at the time they are paid.

- Loans granted to other central banks - Long-term financing granted to other central banks in accordance with Article 7, Section III, of the Law, these balances are current and performing and are considered FICPI. These loans are measured at amortized cost using the effective interest method and bear interest at the contractually agreed rates, interests are recognized in profit or loss as they accrue.

- Intangible assets - Intangible assets comprise software and the Bank's revocation rights over the "Betlemitas Cultural and Educational Center Trust"[4] as the trustee. The revocation right is quantified based on the carrying amount of the property entrusted by the Bank. The revocation right is not subject to amortization and is therefore carried at historical cost. Software is recognized at cost and depreciated based on its estimated useful life.

j. Monetary base -

The Bank has the unitary right to put into circulation banknotes and coins, and is required to accept Mexican pesos on demand, regardless of the condition of the banknote or coin, in exchange for new currency. Accordingly, this line item comprises the total amount of banknotes and coins in circulation, recognized at nominal value plus, and if applicable, the net credit balance of current account deposits.

k. Federal Government current account deposits -

Represents the balance of the Treasury's Mexican peso-denominated current account in accordance with Article 12 of the Law. These funds can only be moved under direct instruction from the Federal Treasurer, except for the payments that the Bank must make to serve the Federal Government's internal debt. These deposits are stated at amortized cost using the effective interest rate and bear interest at market rates, which is recognized in profit or loss as it accrues.

l. Other Federal Government deposits -

This line item includes term deposits from the Federal Government and the foreign currency balance of the Treasury's current account which the Bank holds in accordance with Article 7, Sections VII y XII, of the Law. These deposits are stated at amortized cost using the effective interest rate and bear interest at market rates, which is recognized in profit or loss as it accrues.

m. Monetary regulation liabilities -

This line item comprise liabilities assumed with to transactions that the Bank carries for monetary regulation purposes. These liabilities include:

- The net credit balance resulting from the difference between the Government securities held and Federal Government deposits maintained at the time of acquisition (see Note 2e). This difference results from the sale of Government securities by the Bank through ordinary and extraordinary auctions. Both the Government securities and the associated deposits are measured daily at their fair value, supplied by an independent price vendor. Restatement effects are recognized in profit or loss.

[3] Equity investments denominated in foreign currencies are carried at their equivalent in Mexican pesos as at 31 December 2015.

[4] Revocable trust aimed at creating and operating a cultural and educational space dedicated to monetary, financial and economic matters.

- Mandatory indefinite term deposits from banks with the Bank in accordance with Article 28 of the Law, and in accordance with Circular 9/2014, and its amendment through Circular 11/2014. These deposits are stated at amortized cost using the effective interest rate and are interest bearing. Interest is recognized in profit or loss as it accrues.

- Monetary regulation bonds (BREMS) issued by the Bank and acquired by banks as an alternative mean to comply with the requirement of maintaining monetary regulation deposits with the Bank (which may be comprised of cash, securities or both). These bonds are acquired exclusively through auctions and are settled through the mandatory indefinite term deposits with the Bank of the acquiring banks. These bonds can only be allocated to repos between the above-mentioned entities and the Bank or between the banks themselves. Accordingly, BREMS are not traded in secondary markets and bear interest at market rates, which is recognized in profit or loss as it accrues.

- Deposits from banks for open market short-term operations and the Bank's accounts payable under repo agreements where the Bank acts as the seller. These deposits are stated at amortized cost using the effective interest rate and are interest bearing. Interest and repo premiums are recognized in profit or loss as they accrue.

n. Deposits from Mexican Oil Stabilization and Development Fund -

Correspond to the deposits in Mexican pesos that the Mexican Oil Stabilization and Development Fund[5] holds with the Bank. These deposits are stated at amortized cost using the effective interest rate and bear interest at market rates, which is recognized in profit or loss as it accrues.

o. International Monetary Fund -

This balance, expressed in Mexican pesos, represents the net debt that the Bank maintains with the IMF in SDR, net of contributions paid to such organism. The deposits and contributions are recognized in Mexican pesos and are restated based on the SDR equivalent determined on the day they were made, and the related exchange gains and losses are recognized in profit or loss.

p. Special Drawing Rights -

Represents the Special Drawing Rights allocated to the Bank based on its IMF quotas. SDR allocations bear interest at market rates, which is recognized in profit or loss as it accrues.

q. Other liabilities -

This line item includes deposits hold by the Bank in accordance with Article 7, Sections VII, VIII and XII, of the Law, as follows:

- Deposits from institutions and financial international organizations - Represent demand deposits from institutions and financial international organizations (excluding IMF) in both Mexican pesos and foreign currencies. Foreign currency denominated deposits are translated into Mexican pesos as described in Note 2a.

- Labor trust deposits - Funds in irrevocable trusts created by the Bank to meet its retirement benefit obligations as per its General Labor Conditions. These deposits bear interest at market rates, which is recognized in profit or loss as it accrues.

- Cash deposits from trusts - Deposits from trusts in which the Bank is the trustee.

[5] Public state trust created in 2014 to receive, manage and distribute federal revenue corresponding to the Mexican state from assignments and contracts granted for oil and hydrocarbon exploration and extraction activities, net of the related taxes.

r. Equity -

In accordance with Article 53 of the Law, the Bank must preserve, whenever possible, the actual value of the sum of its capital plus reserves, and increase such value considering the Gross Domestic Product growth in real terms. The Bank may only create additional reserves on revaluations of assets when agreed and authorized by the SHCP.

Equity includes *Inventories reappraisal* originated from its measure at replacement value, as stated in Article 56 of the Law.

The Capital reserves are as follows:

- Asset revaluation reserve- This line item includes the amounts that the Board of Governors, in accordance with Article 46, Section XV, of the Law, decides to allocate from the operating results of the year to this reserve deducted from amounts it decides to use for other purposes.

- Foreign currency exchange reserve - As per resolutions adopted by the Board of Governors, should the Bank report a profit for the month and such profit include a gain derived from the translation into Mexican pesos of foreign currencies and metals, the accumulated gain is transferred to the foreign currency exchange reserve, provided that this does not result in a loss being recognized in the statement of comprehensive income. Amounts in this reserve can be used to cover losses in subsequent months of the same fiscal year. Before approving the annual financial statements, the Board of Governors must determine the allocation of the year-end reserve balance, if applicable.

- Financial network reserve - The reserve created by the Bank with authorization from the SHCP with the contributions received from public and private entities in the Mexican financial system, as well as from federal agencies and organizations that directly or indirectly use the Bank's technological infrastructure to carry out, pay, and verify transactions (Financial network). These funds are used for the maintenance, upkeep and operation of this infrastructure.

- Capital reserve - The reserve created from the operating results for the year to maintain the Bank's capital and reserves up to date in accordance with Article 53 of the Law.

s. Fiscal year operating surplus -

In accordance with Article 55 of the Law, the Bank must hand over any and all operating surpluses to the Federal Government once the required reserves have been created. These funds are delivered no later than the last day of April of the immediately subsequent fiscal year.

The Bank’s operating results arise primarily from the following financial and foreign exchange factors:

Financial factors:

The net acquisitions of foreign currencies from the Federal Government and Petróleos Mexicanos represent an increase on international reserves. These acquisitions usually generate cash flows of Mexican pesos that exceed the demand for banknotes and coins. To remove excess liquidity, the Bank implements monetary sterilization measures aligned with its objective of cash provision while maintaining the Mexican peso’s purchasing power. These monetary sterilization measures result in an increased financial burden for the Bank, as it increases its debit position in Mexican pesos with banks.

In addition, when there is a negative spread between external yields on investments in international assets and internal yields on Mexican peso-denominated liabilities, there is downward pressure on the Bank's financial results. This negative interest rate spread results from the following:

- The international reserve, as established in Article 20 of the Law, is invested into high-quality financial instruments in international markets. These instruments must have maturities of no more than six months or must be highly liquid, and thus bear interest at the prevailing market interest rates for these kinds of instruments.

- In accordance with Article 8 of the Law, the Bank issues Mexican peso-denominated debt instruments with interest rates obeying prevailing domestic money market conditions.

Foreign exchange factors:

These are gains and losses from the daily translation into Mexican pesos of foreign currencies and metals position using the "FIX" exchange rate set and published by the Bank. When the actions taken by the Bank to preserve the Mexican peso's purchasing power result in an appreciation against the U.S. dollar, the Bank incurs in losses; a depreciation of the Mexican peso against the U.S. dollar results in a profit for the Bank.

t. Other comprehensive income -

The Bank's components of other comprehensive income consist of the accrued unrealized gain from the mark to market measurement of assets that the Bank has designated as cash flow hedges (see Note 2i.).

u. Memorandum accounts -

The Bank uses memorandum accounts mainly to control: i) authorized issuances of Government securities; ii) the issuance and inventory (at face value) of banknotes and coins; iii) managed Savings Protection Bonds; iv) outstanding external public debt bonds issued by the Federal Government; v) Monetary Regulation Bonds issued by the Bank and; vi) the net assets of the trusts in which the Bank is the trustee.

v. Calculation of expected credit losses -

To determine the recoverability of accounts receivable, the Bank uses the following indicators:

- Evidence of significant financial difficulty of the borrower;

- Amendments to the original contractual terms and conditions in response to financial or legal issues of the borrower;

- High probability of bankruptcy, suspension of payment, or debt restructuring of the borrower; and

- Breach of contract, such as default on principal or interest payments.

To calculate its expected credit losses related to accounts receivable, the Bank determines the following:

- The probability of default, based on the Bank's internal historical credit loss data and past due receivables; and

- The loss given default, which corresponds to the outstanding portion or the entirety of accounts receivable, considering current circumstances that must be adjusted with reasonable and sustainable forecasts of different future quantifiable events.

As of December 31, 2019 and 2018, there are no significant accounts receivable for which the Bank would need to recognize an expected credit loss.

w. Commitments and contingent liabilities -

In accordance with Article 63, Section I, of the Law, the Bank cannot grant guarantees except, as established by Article 7, Section IX, of the Law, in cases of financial transactions carried out for international reserve management. Contingent liabilities arise from the Bank's labor obligations.

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, disclosure is provided in the notes to the financial statements. Contingent revenues, earnings or assets are not recognized until realization is assured.

At the end of December 2019, exists one labor lawsuit against the Bank, that allows to locate it as possible the application of financial resources to settle it. As of this date, a reliable quantification of these resources cannot be established, nor how feasible would an unfavorable resolution be for the Bank, given that the corresponding legal processes are ongoing. Despite the above, it is important to mention that, in an extreme case, it is estimated that its financial effect would not be significant.

x. Labor obligations -

In accordance with Article 7, Section XI of the Law, the Bank can act as a trustee for the trusts created by the Bank to comply with its labor obligations.

Based on the above, the Bank has created irrevocable trusts, in which it acts as the trustor and the trustee, with the purpose of covering its labor obligations related to pensions, retirement benefits, seniority premiums and post-employment benefits in accordance with the Bank's General Labor Conditions. Accordingly, plan settlements are paid from these trusts, which have been funded by the Bank to cover these labor obligations. As a result, the Bank does not present assets and liabilities arising from labor obligations in its financial statements.

In accordance with its General Labor Conditions, the Bank prepares actuarial studies to calculate its obligations arising from pensions, seniority premiums and post-employment benefits. As the Trustor of the irrevocable trusts, the Bank is required to update its actuarial estimates at least every five years. Actuarial studies must be reviewed by an independent expert. The independent experts have concluded that the Bank's irrevocable trusts have the necessary funds to meet its labor obligations in the future.

Note 3.- Risks management:

The Central Bank is exposed to a variety of risks factors inherent on its operations. These risks are both financial and non-financial in nature. Financial risks arise from changes on these risks factors that might impact the financial results of the Central Bank. Non-financial risks relate primarily to situations that could affect the Central Bank's ability to appropriately execute its processes due to internal causes (operational risks) or external causes (security risk), due to controversies arising from the interpretation and compliance with applicable laws and regulations (legal risk), and due to circumstances, that could affect the Bank's credibility or reputation (reputational risk).

The Bank's exposure to financial risk arises primarily from the transactions with financial instruments, specifically from the management of its international reserves, and also from domestic transactions carried out for monetary policy or financial stability purposes.

I. Investment of international reserves.

The financial risks related to the investment of the international reserves are managed through the application of investment and risk guidelines, in particular:

- The investment of international reserves on eligible currencies.

- The investment of international reserves on eligible financial instruments, as well as the minimum required amount on highly liquid assets.

- The use of benchmark portfolios in order to assess performance and market risk exposures of the investment portfolios.

- The methodologies used to assess and control market risk exposure.

- The credit risk management criteria applicable to eligible financial instruments, counterparty selection policies and credit risk exposure limits.

a. Market risk[6].

In the case of the international reserves owned by the Central Bank, the primary source of market risk is related to the fluctuations on the exchange rates used to keep accounting records in domestic currency of the financial instruments denominated in foreign currencies. Therefore, the Bank would report a loss when the Mexican peso appreciates against the currencies in which the international reserves are invested; i.e. the Bank receives less Mexican pesos per foreign currency unit. However, these losses are not realized until the currencies are actually exchanged for Mexican pesos. The Bank recognizes such unrealized losses in its statement of comprehensive income because the presentation currency is the Mexican peso. In view of the fact that the main objective of the international reserve is to preserve the purchasing power of the Mexican peso by offsetting the imbalances between the country's foreign currency inflows and outflows, this risk cannot be hedged[7].

Consequently, in order to have operational flexibility to use the currencies in which the international asset reserve is invested, the Bank assumes the risk resulting from its conversion for accounting purposes into local currency.

[6] Market risk reflects the potential loss in the value of a financial instrument due to fluctuations in market prices.

[7] A hedging strategy may include Mexican peso exchange rate forward contracts for the currencies in the international reserves. However, such strategy would require the Central Bank to give up the ownership of the currencies in the international reserves, as these would be committed at a future date and therefore, such transaction would result in a reduction to the international reserves.

The factors that give rise to market risk exposure from the investment of the international reserves are the U.S. dollar exchange rates for each eligible currency, U.S. dollar price of gold, and the interest rates associated with eligible financial instruments. According to the investment and risk guidelines applicable, this market risk exposure is measured using the Value at Risk (VaR) method [8]. In particular, market is risk is managed and controlled based on benchmark portfolios and VaR limits. Investments that give rise to market risk are identified, assessed and monitored on an ongoing basis. VaR is measured using market price indicators and standard methodologies.

b. Credit risk [9].

Under the current investment and risk guidelines, the Bank's credit risk exposure derived from the investment of its international reserves is managed and controlled by establishing a minimum credit rating requirement for counterparties and issuers. In addition, credit risk is managed by assigning limits on the credit exposures and terms of the transactions. These limits are determined by taking into account factors that supplement the credit ratings. Investments that give rise to credit risk are identified, assessed and monitored on an ongoing basis.

c. Concentration risk [10].

Concentration risk arises when the international reserves are exposed to a single risk factor or when the international reserves are invested in a limited number of counterparties. This risk is managed and controlled through the use of diversified portfolios with different risk factors and exposure to varying types of eligible financial instruments, and by limiting exposures to specific counterparties or issuers.

II. Monetary policy.

Open Market Operations for monetary policy purposes are carried out through deposits and liquidity auctions. In these Open Market Operations, the Bank provides all the required liquidity to the financial institutions, in order to offset potential overdraft costs due to factors affecting the monetary base. The financial institutions that participate on these auctions may formalize such transactions through a collateralized loan or repo transaction, depending on the financial asset pledged as collateral. These transactions are collateralized in order to mitigate the credit risk inherent in these operations, as this represents the most relevant financial risk.

If the liquidity auction is documented as a collateralized loan, the principal amount must be guaranteed by the monetary policy long term mandatory deposits that the financial institutions maintain at the Central Bank, the U.S. dollar deposits, as well as the deposits used to determine the TIIE. For repo transactions, the financial instruments that can be used as collateral are government securities, BREMS issued by the Bank, and Savings Protection Bonds (BPA) issued by the IPAB. In these transactions, the loan principal granted by the Bank must be covered by the market value of the eligible collateral which is multiplied by a discount factor. These discount factors are calculated based on standard methodologies in order to ensure that, should the debt instruments be forced to be sold due to default in a repo transaction, it would be highly probable that Bank would not incur into a financial loss [11].

[8] Value at Risk is an estimate of the maximum possible loss in a financial instrument portfolio with a certain time horizon and confidence level, based on identified market risk factors.

[9] Credit risk reflects the potential loss due to a counterparty default, (i.e. if such counterparty fails to meet its contractual obligations).

[10] Concentration risk reflects the potential loss due to a lack of diversification in the Bank's exposure among the eligible counterparties or issuers.

[11] The discount factors are expressed in percentage terms. Its estimations depend on the maturity of the repo transaction as well as the market risk characteristics of the financial instrument used as collateral.

III. Financial stability.

As a preventive measure that promotes the proper operation of the financial markets and the payment system, in October 2008, the Bank established a standing liquidity facility to provide to the commercial banks the amount of liquidity they required as long as it is guaranteed by eligible instruments. The financial institutions requesting this liquidity must submit a letter signed by their General Director describing the liquidity issues they face and formalize a legal agreement with the Bank.

The commercial bank requesting this facility may obtain the funds through any of the following transactions or a combination thereof: (i) term loan transactions secured by the monetary policy long term mandatory deposits that the commercial bank holds with the Bank or the U.S. dollar deposits with the Bank; or (ii) repo transactions on eligible debt instruments in accordance with the applicable regulations [12].

In order to mitigate its exposure to financial risk arising from the transactions related to this standing liquidity facility, the Bank applies the same risk management guidelines and procedures it applies for the Open Market Operations through the repo transactions, where the market value of collateral is multiplied by a discount factor. The discount factors applied to the financial instruments issued by entities with lower credit ratings or exposed to a higher market risk are more restrictive.

Note 4.- – Analysis of specific line items and exchange rates for the year:

a. International reserve -

An analysis of the Bank's international reserves as of December 31, 2019 and 2018 is shown below:

	2019	2018
Deposits in foreign banks	$1,571,316	$1,421,753
Interest bearing notes	991,082	1,048,766
Discounted instruments	652,654	766,566
Gold	110,310	96,982
SDRs	73,304	74,867
IMF reserve tranche (Notes 2c and 4i.)	47,404	42,026
IMF loans	3,727	5,884
Interest receivable from foreign entities and organizations	1,720	2,607
Other	1,154	6,708
International assets	3,452,671	3,466,159
Less:		
Deposits received with maturities of less than six months	40,266	30,938
Creditors from foreign exchange purchases (Note 2c.)	12	6
Other	290	332
Liabilities with maturities of less than six months	40,568	31,276
International reserves	$3,412,103	$3,434,883

[12] Circular 1o/2015 issued by the Bank on May 11, 2015.

b. Credit granted to banks and debtors from repo operations -

An analysis of this line item as of December 31, 2019 and 2018, is as follows:

	2019	2018
Assets under repos	$ 338,639	$ 355,399
Loans to banks:		
Development banking	9,014	11,222
Commercial banking	-	201
	9,014	11,423
Bank deposits in current account:		
TIIE rate-setting loans	1,059	1,156
TIIE rate-setting deposits	(1,061)	(1,159)
	(2)	(3)
	$ 347,651	$ 366,819

As of December 31, 2019 and 2018, uncollected accrued interest related to credit operations granted to banking institutions, including those related to the determination of the TIIE, amounts $23 and $28, respectively.

An analysis of securities received and deliverable from repos related to open market operationsP12F[13]P as of December 31, 2019 and 2018, is as follows:

	2019		2018	
	Securities received	Securities deliverable	Securities received	Securities deliverable
BPAS	$ 136,331	($136,331)	$ 171,458	($171,458)
BONOS	116,272	(116,272)	123,150	(123,150)
CETES	33,438	(33,438)	30,881	(30,881)
BREMS R	10,609	(10,609)	21,274	(21,274)
BONDES D	35,612	(35,612)	15,933	(15,933)
UDIBONOS	-	-	1,311	(1,311)
	$ 332,262	($332,262)	$ 364,007	($364,007)

c. International financial organizations -

An analysis of this line item as of December 31, 2019 and 2018 is as follows:

	2019	2018
Inter-American Development Bank (IADB)	$ 10,510	$ 10,949
International Bank for Reconstruction and Development (IBRD)	2,622	2,731
International Finance Corporation (IFC)	311	325
Inter-American Investment Corporation (IIC)	283	294
Caribbean Development Bank (CDB)	100	104
Common Fund for Commodities (CFC)	19	20
International Development Association (IDA)	17	17
	$ 13,862	$ 14,440

[13] In accordance to Circular 3/2012 issued by Banco de México on March 2, 2012, which includes securities granted to the Bank as collateral and pledge to cover any loss.

d. Property, furnishing and equipment -

An analysis of this line item as of December 31, 2019 and 2018, is shown as follows:

	2019	2018	Annual depreciation rate (%)
Buildings	$ 5,814	$ 5,665	(between 5 and 20)
Special equipment	2,546	2,431	(between 7 and 67)
Machinery and equipment	2,385	2,156	10
Air transport equipment	1,315	1,315	(between 5 and 10)
Computer and electrical equipment	756	618	30
Office furniture and equipment	241	239	10
Automotive equipment	171	172	25
Communications equipment	13	18	10
	13,241	12,614	
Accumulated depreciation	(8,273)	(7,765)	
	4,968	4,849	
Land	828	810	
Acquisitions in process	571	760	
Construction in process	67	153	
	$ 6,434	$ 6,572	

An analysis of depreciation for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Charged to operating expenses	$ 496	$ 423
Charged to banknote printing inventories	149	125
Charged to expenses and recovered through assets acquired for the Mexican Oil Stabilization and Development Fund and the Financial Network	40	122
	$ 685	$ 670

Impairment loss for long-lived assets disposed of in 2019 was two million pesos[14], of which 1 million pesos is recognized as part of operating expenses in profit or loss. The remaining amount, which is related to assets used in the banknote printing process, is included as part of cost of banknotes and coins brought into circulation.

[14] In 2018, impairment losses totaled Ps.3, of which Ps.1 corresponds to assets used in banknote printing; therefore, this impairment loss was recognized as part of cost of banknotes and coins brought into circulation in 2018, and the remaining amount was recognized as part of operating expenses for the year.

e. Other assets-

An analysis of this line item as of December 31, 2019 and 2018, is as follows:

	2019	2018
Inventories related to banknote printing and acquisition of coins	$ 7,163	$ 5,703
Assets designated as cash flow hedges	2,712	4,206
IMF fees paid in advance	2,811	3,861
Assets under foreign currency hedge auctions	2,309	2,330
Other equity investments	762	762
Loans granted to other central banks	708	737
Intangible assets	586	586
Silver	427	516
Prepaid expenses	410	61
Other	9,403	8,692
	$ 27,291	$ 27,454

In November 2019, the IMF Executive Board, renewed for two more years, the FCL granted in 2009[15] and reaffirmed México's continued qualification to access FCL resources without restrictions, which balance approved was 44,563 SDRs million (about USD 62 billion[16]). The Bank paid the corresponding fee to the IMF.

Cash flow hedges correspond to foreign currencies whose market value as of December 31, 2019 is approximately USD 144 million. The hedges are effective and, accordingly, valuation gains and losses are recognized in "Other comprehensive income" from their inception date.

Amortization of intangible assets charged to Operating expenses during 2019 and 2018 was $183 and $173, respectively.

f. Monetary base -

An analysis of balances in the monetary base as of December 31, 2019 and 2018, is as follows:

	2019	2018
Banknotes in circulation	$ 1,682,281	$ 1,616,317
Coins in circulation	58,653	56,888
	1,740,934	1,673,205
Bank deposits in current account	1,541	1,006
	$ 1,742,475	$ 1,674,211

[15] México's first FCL agreement was approved in April 2009 and was subsequently renewed in March 2010, January 2011, November 2012, November 2014 and May 2016, early renewed in November 2017 and November 2019.
[16] In accordance with the exchange rate in force at the end of December 2019.

g. Other Federal Government deposits -

An analysis of this line item as of December 31, 2019 and 2018, is as follows:

	2019	2018
Federal Government term deposits	$ 141,634	$ 275,380
Federal Treasury - Foreign currency current account	3,327	3,736
	$ 144,961	$ 279,116

h. Monetary regulation liabilities -

An analysis of this line item as of December 31, 2019 and 2018, is as follows:

	2019	2018
Monetary regulation deposits:		
Government securities	$ 1,067,853	$ 868,293
Banks:		
Commercial banking	182,521	182,510
Development banking	32,732	32,729
	215,253	215,239
	1,283,106	1,083,532
Monetary regulation bonds	105,127	105,120
Other deposits from banks and creditors from repo operations:		
Commercial banking	65,375	115,423
Development banking	11,065	8,120
Creditors from repo	-	-
	76,440	123,543
	$ 1,464,673	$ 1,312,195

An analysis of monetary regulation deposits of Government securities as of December 31, 2019 and 2018, is as follows:

	2019		2018	
	Government securities	Monetary regulation deposits	Government securities	Monetary regulation deposits
CETES	$ 1,948,397	$ (2,236,777)	$ 1,985,140	$ (2,146,495)
BONDES D	2,025,102	(2,804,575)	1,344,125	(2,051,063)
UDIBONOS	1,225,988	(1,225,988)	959,733	(959,733)
BONOS	243,036	(243,036)	205,388	(205,388)
	$ 5,442,523	$ (6,510,376)	$ 4,494,386	$ (5,362,679)
Net credit balance	$ (1,067,853)		$ (868,293)	

i. International Monetary Fund -

An analysis of this line item as of December 31, 2019 and 2018, is as follows:

	2019	2018
Total IMF deposits:		
IMF deposits	$ 189,647	$ 208,878
Provision for foreign exchange differences on domestic currency deposits	(4,555)	(7,314)
	185,092	201,564
Less:		
Net contributions to IMF:		
IMF Quota	232,496	243,590
IMF reserve tranche (Notes 2c. and 4a.)	(47,404)	(42,026)
	185,092	201,564
	$ -	$ -

j. Special Drawing Rights -

An analysis of IMF SDR allocations as of December 31, 2019 and 2018, is as follows:

	2019		2018	
	SDR	Mexican pesos	SDR	Mexican pesos
Beginning balance	2,851	$77,925	2,851	$79,841
Restatement due to exchange rate fluctuations	-	(3,549)	-	(1,916)
	2,851	$74,376	2,851	$77,925

k. Other liabilities-

An analysis of other liabilities as of December 31, 2019 and 2018, is as follows:

	2019	2018
Deposits	$ 87,441	$ 84,212
Other	2,650	2,233
	$ 90,091	$ 86,445

l. Memorandum accounts (unaudited) -

An analysis of memorandum accounts as of December 31, 2019 and 2018, is as follows:

	2019	2018
Managed Government securities	$ 26,065,663	$ 23,018,169
Banco de México banknotes and coins	3,307,982	2,950,043
Managed Savings Protection Bonds	1,340,000	1,313,000
External public debt bonds	628,986	706,525
Issued Monetary Regulation Bonds	400,000	400,000
Trusts net assets	197,055	188,550
Other	229,160	313,397
	$ 32,168,846	$ 28,889,684

m. Foreign currency and UDI balances -

The Bank's foreign currency, metals and UDI net balance as of December 31, 2019 and 2018, translated into pesos, is shown below:

	2019	2018
U.S. dollar	$ 3,120,360	$ 3,107,407
SDR	50,122	44,931
Singapore dollar	35,020	29,450
New Zealand dollar	26,975	(1)
Canadian dollar	26,967	14,081
Offshore Chinese yuan	24,311	18,732
Japanese yen	21,772	23,421
Australian dollar	16,355	29,555
Swiss franc	459	507
Norwegian krone	(25)	24,053
Euro	(2,008)	15,648
Pound sterling	(4,138)	9,865
Other currencies	13,398	5,549
Gold	22,442	49,158
Silver	(1)	(2)
Net currency and metal asset position	$ 3,352,009	$ 3,372,354
UDI net position	$ (77,169)	$ (73,620)

n. Exchange rates-

The exchange rates used to translate foreign currency denominated assets and liabilities, as well as metals and UDIs, into Mexican pesos as at December 31, 2019 and 2018 are as follows:

	2019	2018
U.S. dollar	$ 18.864200	$ 19.651200
SDR	26.085971	27.330685
Singapore dollar	14.028557	14.418666
New Zealand dollar	12.726733	13.178095
Canadian dollar	14.545609	14.389631
Offshore Chinese yuan	2.707961	2.859854
Japanese yen	0.173616	0.179054
Australian dollar	13.256817	13.839358
Swiss franc	19.479760	19.944382
Norwegian krone	2.148004	2.268353
Euro	21.175065	22.469182
Pound sterling	24.983746	25.047420
Gold	28,574.546950	25,133.884800
Silver	336.254388	300.565104
UDI	6.399018	6.226631

Note 5.- Subsequent Events:

a. Improvements to BdM FRS -

The CINIF issued new Mexican FRS effective for annual periods beginning on or after January 1st, 2020, as well as improvements to existing Mexican FRS. In order to maintain a sound accounting framework aligned to Mexican and international best practices, the Bank updated its accounting framework to align it with the new standards and improvements issued by the CINIF applicable to the Bank. The CINIF Board has issued a favorable opinion with respect to the convergence between FRS BdM and Mexican FRS.

The most relevant changes to BdM FRS effective as of January 1st, 2020 are as follows:

- The new FRS BdM B-11.- *"Disposal of long-lived assets and discontinued operations",* which establishes the criteria applicable to long-lived assets and their impairment, as well as discontinued operations. As a result of the disposition assets and their impairment are regulated in the aforementioned FRS BdM, FRS BdM C-15.- "Impairment of the value of long-lived assets and their disposal" was repealed.

- In the FRS BdM C-16.- "Impairment of financial instruments receivable", it is specified that in the recognition of IFCPIs that are not withdrawn due to a renegotiation, the effective interest accrued must be determined using the original effective interest rate, adjusted to include the costs of the renegotiation.

- The FRS BdM C-19.- "Financial instruments payable" and the FRS BdM C-20.- "Principal and interest financial instruments" were modified, to exempt from periodically recalculating the effective interest rate when the effect of the recalculation lack of relative importance.

- In FRS BdM D-5.- "Leases", changes were made in the provisions related to the Bank in its capacity as lessee: i) in the initial and subsequent recognition of the lease liability, the incremental financing rate or the risk-free rate determined with reference to the lease term when it is complex to determine the implicit interest rate to discount future lease payments, and ii) in case it is difficult to separate the non-lease components or these are of lack of relative importance, it is possible to choose not to separate non-lease components from non-lease components and instead each lease component and any associated non-lease component should be recognized as a single lease component.

The Bank does not expect that the adoption of these improvements to BdM FRS will have a material effect on its financial statements in terms of measurement, disclosure and presentation.

b. International reserves -

As of March 27, 2020, the Bank's international reserves total USD 185,509 millions. The cumulative increase over December 31, 2019 is USD 4,632 million.

Exchange rates –

The exchange rates used to translate foreign currency denominated assets and liabilities, as well as metals and UDIs, into Mexican pesos as at March 27, 2020 are as follows:

U.S. dollar	$	23.512200
SDR		32.110359
Singapore dollar		16.398521
New Zealand dollar		14.010920
Canadian dollar		16.676502
Offshore Chinese yuan		3.304735
Japanese yen		0.217474
Australian dollar		14.264852
Swiss franc		24.468935
Norwegian krone		2.217316
Euro		25.874000
Pound sterling		28.894143
Gold		38,026.281060
Silver		338.928363
UDI		6.497461

c. Foreign exchange gains and losses -

As of March 27, 2020, the peso has had an exchange rate depreciation of 24.6% against the U.S. dollar compared to December 31, 2019. Consequently, in 2020 the Bank recognized a foreign exchange gain from the translation its foreign currency and metal balances.

The financial statements and accompanying notes were issued on March 27, 2020 and are subject to approval from the Board of Governors.

RÚBRICA

Gerardo Mauricio Vázquez de la Rosa
Director General of Administration

RÚBRICA

Víctor Moisés Suárez Picazo
Director of Accounting, Planning and Budgeting