Banco de México

Financial Statements
December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

(Translation from Spanish language original)

Banco de México
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December 31, 2020 and 2019

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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 sheets as of December 31, 2020 and 2019, the statements of comprehensive income and of changes in equity for the years 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, the actions taken to eliminate threats or the safeguards applied.

KPMG Cárdenas Dosal, S. C.

SIGNATURE

Ricardo Delfin Quinzaños
Mexico City, March 30, 2021.

Banco de México

Balance sheets

December 31, 2020 and 2019

Amounts in millions of pesos

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

Assets	2020	2019
International reserves (Notes 2c. and 4a.)	$ 3,895,479	$ 3,412,103
International assets	3,962,951	3,452,671
Liabilities to be deducted	(67,472)	(40,568)
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.)	643,069	347,651
International financial organizations (Notes 2g. and 4c.)	14,631	13,862
Property, furnishing and equipment (Notes 2h. and 4d.)	6,718	6,434
Other assets (Notes 2i. and 4e.)	29,467	27,291
Total assets	$ 4,589,364	$ 3,807,341

Liabilities and equity	2020	2019
Monetary base (Notes 2j. and 4f.)	$ 2,118,243	$ 1,742,475
Banknotes and coins in circulation	2,117,034	1,740,934
Bank deposits in current account	1,209	1,541
Federal Government current account deposits (Note 2k.)	435,996	403,137
Other Federal Government deposits (Notes 2l. and 4g.)	2,050	144,961
Monetary regulation liabilities (Notes 2m. and 4h.)	1,778,259	1,464,673
Monetary regulation deposits	1,470,743	1,283,106
Government securities	1,304,990	1,067,853
Banks	165,753	215,253
Monetary regulation bonds	102,262	105,127
Other deposits from banks and creditors from repo operations	205,254	76,440
Deposits from Mexican Oil Stabilization and Development Fund (Note 2n.)	130	164
International Monetary Fund (Notes 2o. and 4i.)	-	-
Foreign Financial Authorities (Nota 2p.)	22,594	-
Special Drawing Rights (Notes 2q. and 4j.)	81,755	74,376
Other liabilities (Notes 2r. and 4k.)	96,976	90,091
Total liabilities	4,536,003	3,919,877
Equity (Note 2s. and 4l.):		
Capital	9,658	8,885
Capital reserves	43,750	45,079
Net loss	-	(166,444)
Retained earnings	-	-
Other comprehensive income (Note 2u.)	(47)	(56)
Total equity	53,361	(112,536)
Total liabilities and equity	$ 4,589,364	$ 3,807,341

	2020	2019
Memorandum accounts (Notes 2v. and 4m.) (unaudited)	$32,879,459	$32,168,846

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

SIGNATURE

Gerardo Mauricio Vázquez de la Rosa
Director General of Administration

SIGNATURE

Alejandro Díaz de León Carrillo
Governor

SIGNATURE

Víctor Moisés Suárez Picazo
Director of Accounting, Planning and Budgeting

Banco de México

Statements of comprehensive income

For the years ended December 31, 2020 and 2019

Amounts in millions of pesos

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

	2020		2019	
Financial income:				
International reserves		$ 109,070		$ 123,658
Credit granted to banks and debtors from repo operations:		19,850		23,261
Commercial banks	$ 287		$ 17	
Development banks	195		340	
Repos	19,368		22,904	
Other income		8,777		11,489
Total financial income		137,697		158,408
Financial expenses:				
Federal Government deposits		32,352		55,320
Monetary regulation liabilities:		84,852		112,164
Monetary regulation deposits:	72,964		98,649	
Government securities	62,837		81,051	
Banks	10,127		17,598	
Monetary regulation bonds	5,748		8,595	
Deposits from banks and creditors from repo operations	6,140		4,920	
Commercial banks	5,470		4,311	
Development bank	670		609	
Repos	-		-	
Mexican Oil Stabilization and Development Fund		101		293
International Monetary Fund		2,821		4,124
Foreign Financial Authorities		400		-
Special Drawing Rights		156		754
Other expenses		9,114		8,326
Total financial expenses		129,796		180,981
Net loss		7,901		(22,573)
Currency exchange effects		164,752		(138,061)
Financial loss		172,653		(160,634)
Operating expenses:				
Administrative expenses		3,938		3,778
Depreciation and amortization		796		659
Cost of banknotes and coins in circulation		3,142		1,535
Total operating expenses		7,876		5,972
Other income (net of other expenses)		240		162
Total net loss		165,017		(166,444)
Other comprehensive income		9		(57)
Comprehensive loss for the year		$ 165,026		$ (166,501)

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Banco de México

Statements of changes in equity

For the years ended December 31, 2020 and 2019

Amounts in millions of pesos

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Item	Capital	Surplus	Net results	Other comprehensive results	Net loss of prior year	Capital reserve	Asset revaluation reserve	Financial network reserve	Total equity
Balances as of December 31, 2018	**$ 5,406**	**$ 3,609**	**$ (99,438)**	**$ 1**	**$ -**	**$ 116,247**	**$ 27,860**	**$ 336**	**$ 54,021**
Allocation of net loss to accumulated deficit			99,438		(99,438)				-
Loss amortized in the year					99,438	(71,578)	(27,860)		-
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)**	**-**	**44,669**	**-**	**410**	**(112,536)**
Allocation of net loss to accumulated deficit			166,444		(166,444)				-
Loss amortized in the year					44,669	(44,669)			-
Inventories reappraisal		773							773
Financial network transactions								98	98
Comprehensive income for the year			165,017	9					165,026
Amortized loss in the year			(121,775)		121,775				-
Constitution of capital reserve			(43,242)			43,242			-
Balances as of December 31, 2020	**$ 5,406**	**$ 4,252**	**$ -**	**$ (47)**	**$ -**	**$ 43,242**	**$ -**	**$ 508**	**$ 53,361**

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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, in addition to 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 also receive 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 2020, the Bank is not subject to the payment of income tax and is only obliged to withhold and remit income tax, issue tax receipts for the contributions, products and benefits that collect, as well as for the supports or incentives that it grants and demand them when it makes payments to third parties and such third parties are required to issue such receipts under the terms of the tax provisions, 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.

COVID-19 pandemic -

On March 11, 2020, the World Health Organization declared the COVID-19 coronavirus outbreak a global pandemic. This in Mexico and in the rest of the world has had repercussions on economic activity, inflation and global financial conditions that are still difficult to assess and of a magnitude unprecedented in recent history. On March 30, 2020, the health emergency was declared in the country and since the beginning of this health emergency, the Bank has worked to ensure the proper functioning and stability of the national financial markets and promote their healthy development, and approved measures aimed to provide liquidity, so that credit institutions fulfill their priority function of granting financing to the economy.

Despite the confinement measures, the activities, processes and operations of the Bank have remained, in general, in operation and in force, which has allowed it to achieve its purposes.



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.

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.

[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 particular 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 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 through quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value determination through 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 through 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, 2020, and 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 if 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. FICPI 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 arranged against Mexican pesos.

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 would 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.

Additionally, the line item includes the financing auctions in dollars with the country's credit institutions, carried out with the resources from the swap line agreed between the Bank of Mexico and the Federal Reserve of the United States, whose activation was announced by the Foreign Exchange Commission in March 2020 (see Note 2p.).

On April 21, 2020, the Board of Governors of Banco de México approved measures aimed at providing liquidity in national currency to the banks, to improve the functioning of internal markets, strengthen the channels for granting credit in the economy and promote the orderly behavior of the debt and foreign

exchange markets in our country (Facilities) which include extraordinary operations that the Law empowers it to carry out, under the conditions that the same Law provides. In this regard, this item includes transactions related to Facilities granted through repos and loans, among which are: i) Facility 4, Government securities repo window; ii) Facility 6, Reporting of corporate titles and, iii) Facility 7, Provision of resources to banking institutions to channel credit to micro, small and medium-sized companies and individuals affected by the pandemic.

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 equivalent to the cost of the contribution.

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 buildings owned by the Bank, or costs incurred to replace or enhance the buildings 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 for the first time.

- 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 their valuation to fair value 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.

  In exchange hedging auctions, 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.

- 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 - They are considered FICPI and correspond to Long-term financing granted to other central banks in accordance with Article 7, Section III, of the Law. 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. The credits matured on June 2020.

- 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.

[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.

[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.

j. Monetary base -

The Bank has the unitary right to put into circulation banknotes and coins, and is required to exchange them on demand. 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 inherent 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.

- 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 (for its acronym in Spanish, "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.

On March 20, 2020 as a measure to provide liquidity in pesos and to improve the functioning of national markets, the Board of Governors of Banco de México decided to reduce the amount of Monetary Regulation Deposits held by multiple banking and development institutions deposited in a mandatory and permanent manner in the Bank and adjust the mechanism for its determination.



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. Foreign Financial Authorities -

On March 19, 2020, the Bank announced the establishment of a temporary currency exchange mechanism known as a "swap" line for up to 60 billion dollars, agreed between this Central Bank and the Federal Reserve of the United States, whose objective is to support the provision of liquidity in dollars for the national interbank market. The Foreign Exchange Commission announced during that same month, the activation of said mechanism. The "swap" line originally had a duration of six months; however, on December 16, 2020, the Federal Reserve of United States announced the extension of the validity of the mechanism until September 30, 2021.

This line item corresponds to the deposit in pesos that the Federal Reserve of United States maintains in the Bank derived from the disposition of dollars from the swap line. This deposit is presented at amortized cost using the effective interest rate and generates interest at market rates, which are recorded in the results of the year as they accrue. (See Note 2f.).

q. 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.

r. 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.

s. 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 the surplus from the restatement at replacement value of inventories related to the manufacture of banknotes and the acqusition of coins, as stated in Article 56 of the Law (see Note 4l.).

The Capital reserves are as follows:

- Capital reserve.- Corresponds to the reserve that is constituted with resources from the results of the year, to preserve the real value and update the sum of the capital and its reserves in accordance with the provisions of article 53 of the Law.

- 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.

- Financial network reserve.- Corresponds to the reserve that, with the agreement of the SHCP, the Bank has established with resources from contributions from public and private institutions of the Mexican financial system and from agencies and entities of the federal public administration that they directly or indirectly use the Bank's technological infrastructure for the electronic agreement, settlement and consultation of their operations ("Financial Network"), whose resources are allocated to the maintenance, updating and operation of said infrastructure.

- 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.

t. 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 (See note 2s.). 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.

u. 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.).

v. 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.

w. 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, 2020 and 2019, there are no significant accounts receivable for which the Bank would need to recognize an expected credit loss.

x. 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 2020, 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.

y. 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.- Risk 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.

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 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.

[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.

[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.

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 the 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 purposes.

Internal financing operations for monetary regulation purposes are carried out through liquidity auctions, conducted in open market operations, by means of which the Bank compensates for the shortages in the current accounts held by credit institutions with the Bank. 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.

If the liquidity auction is documented as a loan, the principal amount must be guaranteed by the monetary policy long term mandatory deposits that the financial institutions maintain at the Central Bank, term deposits determined by auction, U.S. dollar deposits, as well as the deposits used to determine the TIIE. On the other hand, repo transactions are government securities, BREMS issued by the Bank and Savings Protection Bonds (for its acronym in Spanish, "BPA") issued by the IPAB.

Within the management scheme of the financial risks inherent in these operations, there is, in the first place, the contractual obligation that the credit institution acquires for the total amount of financing granted by the Bank[11]. Additionally, as a measure to mitigate the risk of default, the credit institution must create guarantees to support the corresponding operation. To this end, the valuation of the guarantees, adjusted by a discount factor determined by the Bank, must be equal to or greater than the total amount of the financing on each banking business day during the term of the operation. The aforementioned discount factors are calculated according to a methodology whose objective is to cover financial risks[12] with a high level of confidence in the event that, in the event of a breach, the guarantees have to be executed under adverse conditions. In addition, the Bank verifies the sufficiency of the guarantees daily to cover the total amount of the financing. If the value of the guarantees is less than the financing granted, the commercial bank is obliged to constitute additional guarantees, in order to keep the exposure to credit risk faced by the Bank adequately covered.

[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] In the case of a loan, the total amount of the financing includes the principal and interest, while for a repurchase transaction it includes the price, the premium and, where appropriate, any other agreed expense.

[12] The discount factors take positive values, less than one. The level of discount factors depends on the characteristics and financial risks inherent in the eligible assets used as collateral.

III. Financial stability purposes.

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 and, temporarily, development banking the amount of liquidity they required as long as it is guaranteed by eligible instruments in accordance with the applicable provisions. The commercial bank or development banking 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 or development banking holds with the Bank or the U.S. dollar deposits with the Bank; or (ii) repo transactions on eligible debt instruments[13].

On the other hand, considering the potential negative implications of the COVID-19 pandemic for global economic activity, as well as for financial markets, on March 20 and April 21, 2020, the Bank provisionally approved, additional measures aimed at providing liquidity to improve the functioning of domestic markets, strengthen the channels for granting credit in the economy and promote the orderly behavior of the markets in our country. Through these measures, commercial bank have access to financing from the Bank, as long as they comply with the requirements established in the corresponding provisions.[14]

The risk management scheme for these operations is analogous to that described in the operations section for monetary regulation purposes, considering the particular characteristics of the financing and the eligible assets that are likely to be received as collateral in the different facilities, in order to adequately cover the Bank's exposure to financial risks.

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

a. International reserve -

An analysis of the Bank's international reserves as of December 31, 2020 and 2019 is shown below:

	2020	2019
Deposits in foreign banks	$1,707,285	$1,571,316
Interest bearing notes	1,160,430	991,082
Discounted instruments	838,093	652,654
Gold	145,063	110,310
SDRs	80,703	73,304
IMF reserve tranche (Notes 2c and 4i.)	67,370	47,404
IMF loans	3,119	3,727
Interest receivable from foreign entities and organizations	231	1,720
Currency forward position	(36,962)	3,162
Other	(2,381)	(2,008)
International Assets	3,962,951	3,452,671
Less:		
Deposits received with maturities of less than six months	66,688	40,266
Creditors from foreign exchange purchases (Note 2c.)	506	12
Other	278	290
Liabilities with maturities of less than six months	67,472	40,568
International reserves	$ 3,895,479	$ 3,412,103

[13] Circular 48/2008 which was later abrogated by Circular 10/2015, published on May 11, 2015 and subsequent updates.

[14] Circulars 16/2020, 17/2020 and 18/2020 published on May 19, 2020, Circular 20/2020 published on June 2, 2020 and Circular 25/2020 published on June 19, 2020 and the modifications announced to the facility of ordinary additional liquidity contained in Circulars 4/2020 and 15/2020.

Disbursements for the custody and administration of the International Reserve in 2020 and 2019 amounted to $227 and $182, respectively, amounts that represent 0.006% and 0.005% of total International assets.

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

An analysis of this line item as of December 31, 2020 and 2019, is as follows:

	2020	2019
Assets under repos	$ 633,946	$ 338,639
Loans to banks:		
Development banking	9,007	9,014
Commercial banking	116	-
	9,123	9,014
TIIE rate-setting loans	406	1,059
TIIE rate-setting deposits	(406)	(1,061)
	-	(2)
	$ 643,069	$ 347,651

As of December 31, 2020 and 2019, uncollected accrued interest related to credit operations granted to commercial banking, including those related to the determination of the TIIE, amounts $13 and $23, respectively.

The balance of repo debtors includes the financing for 1,130 million dollars, which the Bank granted through auctions to the country's commercial banking, with the resources from the provision of the "swap" line agreed between the Bank and the Federal Reserve of the United States.

Additionally, this line item includes the transactions from the implementation of the following Facilities granted through repos and credits: i) Facility 4. Repo window for government securities for $100,766; ii) Facility 6. Repo of Corporate Securities for $11,043 and, iii) Facility 7. Provision of resources to commercial banking to address credit to micro, small and medium-sized companies and individuals affected by the pandemic for $8,544.

An analysis of securities received and deliverable from repos related to open market operations[15] as of December 31, 2020 and 2019, is as shown below:

	2020		2019	
	Securities received	Securities deliverable	Securities received	Securities deliverable
BPAS	$ 130,479	($130,479)	$ 136,331	($136,331)
BONOS	234,395	(234,395)	116,272	(116,272)
CETES	34,286	(34,286)	33,438	(33,438)
BREMS R	1,001	(1,001)	10,609	(10,609)
BONDES D	72,917	(72,917)	35,612	(35,612)
	$ 473,078	($473,078)	$ 332,262	($332,262)

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

c. International financial organizations -

An analysis of this line item as of December 31, 2020 and 2019 is as follows:

	2020	2019
Inter-American Development Bank (IADB)	$ 11,092	$ 10,510
International Bank for Reconstruction and Development (IBRD)	2,767	2,622
International Finance Corporation (IFC)	329	311
Inter-American Investment Corporation (IIC)	298	283
Caribbean Development Bank (CDB)	106	100
Common Fund for Commodities (CFC)	22	19
International Development Association (IDA)	17	17
	$ 14,631	$ 13,862

d. Property, furnishing and equipment -

An analysis of this line item as of December 31, 2020 and 2019, is shown as follows:

	2020	2019	Annual depreciation rate (%)
Buildings	$ 5,869	$ 5,814	(between 5 and 20)
Special equipment	3,161	2,546	(between 7 and 67)
Machinery and equipment	2,517	2,385	10
Air transport equipment	1,315	1,315	(between 5 and 10)
Computer and electrical equipment	901	756	30
Office furniture and equipment	270	241	10
Automotive equipment	175	171	25
Communications equipment	12	13	10
	14,220	13,241	
Accumulated depreciation	(8,947)	(8,273)	
	5,273	4,968	
Land	828	828	
Acquisitions in process	463	571	
Construction in process	154	67	
	$ 6,718	$ 6,434	

An analysis of depreciation for the years ended December 31, 2020 and 2019, is as follows:

	2020	2019
Charged to operating expenses	$ 629	$ 496
Charged to banknote printing inventories	103	149
Charged to expenses and recovered through assets acquired for the Mexican Oil Stabilization and Development Fund and the Financial Network	32	40
	$ 764	$ 685

Impairment loss for long-lived assets disposed of in 2020 amounted $23[16], which as part of operating expenses in the statement of comprehensive income.

e. Other assets-

An analysis of this line item as of December 31, 2020 and 2019, is as follows:

	2020	2019
Inventories related to banknote printing and acquisition of coins	$ 7,729	$ 7,163
Assets designated as cash flow hedges	2,834	2,712
IMF fees paid in advance	3,021	2,811
Assets under foreign currency hedge auctions	2,698	2,309
Other equity investments	762	762
Loans granted to other central banks	-	708
Intangible assets	669	586
Silver	503	427
Prepaid expenses	227	410
Swap Transactions	92	-
Other	10,932	9,403
	$ 29,467	$ 27,291

In November 2020, the IMF Executive Board completed the mid-term review of the FCL granted in 2009[17] and reaffirmed México's continued qualification to access FCL resources without restrictions, which balance approved, on November 2019, was 44,563 SDRs million (about USD 64 billion[18]). The Bank paid the corresponding fee to the IMF.

Cash flow hedges correspond to foreign currencies whose fair value as of December 31, 2020 is approximately USD 142 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 2020 and 2019 was $193 and $183, respectively.

f. Monetary base -

An analysis of balances in the monetary base as of December 31, 2020 and 2019, is as follows:

	2020	2019
Banknotes in circulation	$ 2,054,603	$ 1,682,281
Coins in circulation	62,431	58,653
	2,117,034	1,740,934
Bank deposits in current account	1,209	1,541
	$ 2,118,243	$ 1,742,475

[16] In 2019, the impairment loss amounted to two million pesos, of which one million pesos corresponded to assets involved in the manufacture of banknotes, so it was included in the cost of banknotes and coins put into circulation in that year, and the rest had an effect on operating expenses for said financial year.

[17] 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.

[18] 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, 2020 and 2019, is as follows:

	2020	2019
Federal Government term deposits	$ 357	$ 141,634
Federal Treasury - Foreign currency current account	1,693	3,327
	$ 2,050	$ 144,961

h. Monetary regulation liabilities -

An analysis of this line item as of December 31, 2020 and 2019, is as follows:

	2020	2019
Monetary regulation deposits:		
Government securities	$ 1,304,990	$ 1,067,853
Banks:		
Commercial banking	145,207	182,521
Development banking	20,546	32,732
	165,753	215,253
	1,470,743	1,283,106
Monetary regulation bonds	102,262	105,127
Other deposits from banks and creditors from repo operations:		
Commercial banking	175,142	65,375
Development banking	30,112	11,065
Creditors from repo	-	-
	205,254	76,440
	$ 1,778,259	$ 1,464,673

As of December 31, 2020, the monetary regulation liabilities incorporate the effect of the decrease in $47,773 from commercial banking and of $2,227 from Monetary Regulation Bonds, with this action, resources were released, amounting to $50,000 in support of active commercial and development banking operations, thereby improving their liquidity and ability to grant loans, as well as to maintain or expand credit lines (Note 2m.).

In addittion, as of December 31, 2020, the balance of Government Securities includes the effect of operations related to Facilities disclosed on April 21, 2020; in particular, $27,756 derived from the effect of Facility 5 are included. Temporary collateral exchange window.

An analysis of monetary regulation deposits of Government securities as of December 31, 2020 and 2019, is as follows:

	2020		2019	
	Government securities	Monetary regulation deposits	Government securities	Monetary regulation deposits
CETES	$ 900,838	($1,329,465)	$1,948,397	($2,236,777)
BONDES D	1,751,250	(2,634,789)	2,025,102	(2,804,575)
UDIBONOS	1,355,063	(1,355,063)	1,225,988	(1,225,988)
BONOS	277,862	(270,686)	243,036	(243,036)
	$4,285,013	($5,590,003)	$5,442,523	($6,510,376)
Net credit balance		($1,304,990)		($1,067,853)

i. International Monetary Fund -

An analysis of this line item as of December 31, 2020 and 2019, is as follows:

	2020	2019
Total IMF deposits:		
IMF deposits	$189,055	$189,647
Provision for foreign exchange differences on domestic currency deposits	(863)	(4,555)
	188,192	185,092
Less:		
Net contributions to IMF:		
IMF Quota	255,562	232,496
IMF reserve tranche (Notes 2c. and 4a.)	(67,370)	(47,404)
	188,192)	185,092
	$ -	$ -

j. Special Drawing Rights -

An analysis of IMF SDR allocations as of December 31, 2020 and 2019, is as follows:

	2020		2019	
	SDR	Mexican pesos	SDR	Mexican pesos
Beginning balance	2,851	$74,376	2,851	$77,925
Restatement due to exchange rate fluctuations	-	7,379	-	(3,549)
	2,851	$81,755	2,851	$74,376

k. Other liabilities-

An analysis of other liabilities as of December 31, 2020 and 2019, is as follows:

	2020	2019
Deposits	$ 91,795	$ 87,441
Other	5,181	2,650
	$ 96,976	$ 90,091

l. Equity-

As of December 31, 2020 and 2019, the Bank's Equity is comprised as follows:

	2020	2019
Capital	$ 5,406	$ 5,406
Surplus	4,252	3,479
Net loss	-	(166,444)
Other comprehensive income	(47)	(56)
Capital reserve	43,242	44,669
Financial network reserve	508	410
	$ 53,361	$ (112,536)

In April 2020, the Board of Governors agreed to apply the balance of the Capital Reserve as of December 31, 2019, which amounted to $44,669 to partially amortize the loss of $166,444 originated in fiscal year 2019, with which the accumulated losses from previous fiscal years amounted to $121,775.

In accordance with the provisions of article 68 of the Bank´s Law, applying in a supplementary manner the provisions of the General Corporations Law, in the application of the results of the year, the accumulated losses of previous years must first be amortized, therefore, from the result for the year 2020 of $165,017, $121,775 was allocated for this purpose. In compliance with article 53 of the Bank´s Law, which mandates this Bank, whenever possible, to preserve the real value of the sum of its capital plus its reserves and increase this value as the gross domestic product increases in real terms, the Board of Governors agreed to allocate the remaining $43,242 to the Capital reserve.

The Equity of the Bank at the end of 1994, the first fiscal year as an autonomous organism, was equivalent to 0.6% of the Gross Domestic Product (GDP). In this regard, by allocating the aforementioned $43,242 to the Capital reserve, the Bank´s Equity as of December 31, 2020 represents only 0.2% of 2020 GDP and 1.16% of the Bank's total assets.

On the other hand, derived from the fluctuations of the exchange rate in the results of the Bank, which is reflected in the Capital reserves that are reported monthly as part of the Equity, during 2020 there were significant variations in this line item, which reached its maximum level in the financial statements as of April 30, 2020, when the exchange rate of the mexican peso against the dollar was 23.9283 pesos and the Capital reserves amounted to $918,279.

The balance of the Capital reserves and the exchange rates of the mexican peso against the dollar at the end of each month during 2020, is as shown below:

		Capital reserve	Exchange rates mexican pesos/ dollar
January 31	$	53,028	18.9082
February 29		209,565	19.7760
March 31		880,623	23.4847
April 30		918,279	23.9283
May 31		596,623	22.1778
June 30		764,352	23.0893
July 31		600,949	22.2012
August 31		541,826	21.8880
September 30		585,793	22.1438
October 31		413,116	21.2508
November 30		206,736	20.1398
December 31*		43,750	19.9087

*Figure that includes the allocation of $43,242 to the Capital reserve from the results of fiscal year 2020, once the losses from previous fiscal years of $121,775.

m. Memorandum accounts (unaudited) –

An analysis of memorandum accounts as of December 31, 2020 and 2019, is as follows:

	2020	2019
Managed Government securities	$ 26,935,072	$ 26,065,663
Banco de México banknotes and coins	3,213,120	3,307,982
Managed Savings Protection Bonds	1,365,000	1,340,000
External public debt bonds	481,710	628,986
Issued Monetary Regulation Bonds	400,000	400,000
Trusts net assets	206,926	197,055
Other	277,631	229,160
	$ 32,879,459	$ 32,168,846

n. Foreign currency and UDI balances -

The Bank's foreign currency, metals and UDI net balance as of December 31, 2020 and 2019, translated into pesos, is shown below:

	2020	2019
U.S. dollar	$ 3,527,915	$ 3,120,360
SDR	69,447	50,122
Singapore dollar	45,294	35,020
Australian dollar	26,379	16,355
Canadian dollar	22,597	26,967
New Zealand dollar	19,466	26,975
Japanese yen	13,678	21,772
Euro	9,767	(2,008)
Swiss franc	373	459
Norwegian krone	(3)	(25)
Pound sterling	(5,686)	(4,138)
Offshore Chinese yuan	(7,513)	24,311
Other currencies	60,496	13,398
Gold	47,659	22,442
Silver	2	(1)
Net currency and metal asset position	$ 3,829,871	$ 3,352,009
UDI net position	$ (80,890)	$ (77,169)

o. 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, 2020 and 2019 are as in the next page.

	2020	2019
U.S. dollar	$ 19.908700	$ 18.864200
SDR	28.673914	26.085971
Singapore dollar	15.062949	14.028557
Australian dollar	15.362548	13.256817
Canadian dollar	15.627536	14.545609
New Zealand dollar	14.337250	12.726733
Japanese yen	0.192848	0.173616
Euro	24.356304	21.175065
Swiss franc	22.527525	19.479760
Norwegian krone	2.326272	2.148004
Pound sterling	27.203248	24.983746
Offshore Chinese yuan	3.064197	2.707961
Gold	37,579.662120	28,574.546950
Silver	527.281920	336.254388
UDI	6.605597	6.399018

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, 2021, 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 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 are as follows:

- Changes to FRS BdM B-1.- "Accounting changes and corrections of errors" was modified to indicate that in those cases in which when applying the retrospective method, the accumulated effects of an accounting change or the correction of an error cannot be determined the Bank must make a prospective application.

- FRS BdM D-5.- "Leases", for sales with return leases, the method was established for the Bank, in its capacity as lessee, to recognize the transfer of the asset as a partial sale.

- FRS BdM C-6.- "Property, furnishing and equipment" was adapted to indicate that the cost of acquiring a component, must include the initial estimate of the retirement expenses, derived from obligations with third parties.

With the endorsement of the CINIF, it was determined that it is not appropriate to adopt NIF C-17.- "Investment properties", because the Bank does not maintain real estate in order to obtain profits from the appreciation of its value in the medium term by selling them, therefore the Bank doesn´t have assets that meet the definition of investment property.

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

b. International reserves -

As of March 26, 2021, the Bank's International reserves total amounted USD 194,934 millions[19]. The cumulative decrease over December 31, 2020 amounted USD 734 millions.

[19] Last balance published by the Bank, as of the date of issuance of those financial statements.

c. 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 30, 2021 are as follows:

U.S. dollar	$	20.602500
SDR		29.191480
Singapore dollar		15.283754
Australian dollar		15.658930
Canadian dollar		16.311706
New Zealand dollar		14.385696
Japanese yen		0.186761
Euro		24.161582
Swiss franc		21.840878
Norwegian krone		2.409170
Pound sterling		28.248088
Offshore Chinese yuan		3.132412
Gold		34,693.579875
Silver		501.464850
UDI		6.746530

d. Foreign exchange gains and losses -

As of March 30, 2021, the peso has had an exchange rate depreciation of 3.5% against the U.S. dollar compared to December 31, 2020. Consequently, in 2021 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 30, 2021 and are subject to approval from the Board of Governors.

SIGNATURE

Gerardo Mauricio Vázquez de la Rosa
Director General of Administration

SIGNATURE

Víctor Moisés Suárez Picazo
Director of Accounting, Planning and Budgeting