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Bank Accounting Standards in Mexico. A Layman's Guide to Recent Changes and their English Equivalence

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Abstract

After the 1995 crisis, the Mexican banking system experienced significant changes in bank accounting standards. Most of these changes took place between 1996 and 2001, and had a significant impact in the structure and interpretation of financial information of banks. For instance, banks were required to modify and strengthen capital requirements, and were subject to new standards for grading credit risks, creating statutory preventive reserves, and observing revelation standards for financial statements, among other relevant regulations. This document explains the major changes on bank accounting, their purpose and structure, and discusses their impact on financial information reported by Mexican banks. It also provides the English equivalent of the major accounting terms used by Mexican banks. The main purpose of this document is to provide a standardized guide to better understand financial information produced before and after the crisis, within the current context of internationalization of Mexican banks' ownership.

Resumen

Después de la crisis de 1995, el sistema bancario mexicano experimentó cambios relevantes en sus reglas de contabilidad. Estos cambios fueron llevados a cabo en su mayoría entre 1996 y 2001, e impactaron de manera significativa tanto la estructura como la interpretación de la información financiera de los bancos. Por ejemplo, los bancos tuvieron que modificar y fortalecer su estructura de capital, y fueron obligados a aplicar nuevas reglas de clasificación de riesgos crediticios, crear reservas preventivas, y estándares de revelación de la información financiera, entre otros cambios relevantes. En este documento se explican las principales modificaciones a las reglas contables, su motivación y estructura, así como el impacto en la información presentada en los estados financieros. También proporciona la equivalencia al inglés de los principales rubros contables de los bancos.

El propósito principal de este documento es proporcionar una guía estandarizada para entender mejor la información financiera de antes y después de la crisis, en el contexto actual de internacionalización de la propiedad de la banca mexicana.

Introduction

After the banking crisis of 1995, Mexican financial authorities realized that accounting standards did not reflect the actual financial situation of the country's banks. Some bank accounting practices were not consistent with the accepted accounting practices in Mexico and varied considerably from the generally accepted accounting standards that prevailed internationally. The banking crisis of 1995 also forced regulators to strengthen capital requirements and to create programs to support banks in financial trouble. Banks were also subject to new standards for grading credit risks and creating statutory preventive reserves. All of these changes had a considerable impact on bank accounting procedures and, consequently, on the interpretation of financial information.

New accounting standards in Mexico (most of which were implemented beginning in January 1997) required bank accounting to be consistent with those detailed in the *Mexican Generally Accepted Accounting Procedures* (*Mexican GAAP*, issued by the Mexican Institute of Public Accountants); to some extent, accounting standards were also aligned with those of the U.S. *GAAP* and the *International Accounting Standards* (*IAS*). This standardization permitted stricter prudential management and supervision, and the implementation of better rules for the disclosure of information. More transparent bank accounts and stricter accounting processes are especially crucial today, in light of the predominantly foreign ownership of the Mexican banking system.

Given the multiple changes in bank accounting standards after 1997, public bank financial statements present problems for creating homogeneous historical series on bank data. Comparisons of bank performance prior to and after 1997 are difficult to assess. For this reason, we identify the major changes in accounting categories and explain their importance. Another issue this paper will address is the fact that there is no public document that provides the English equivalents of Mexican bank accounting rules. Most of the documentation regarding bank accounting rules are the internal reports of banks and accounting firms. Such a paucity of resources restricts the comparative analysis of Mexican bank data. This paper will therefore describe the major changes in Mexican bank accounting and their English equivalents. A better understanding of these changes is necessary for the analysis of the behavior and performance of Mexican banks in recent years.

The first section of this paper, Reformulating Accounting Standards, briefly explains the development of recent changes in accounting standards. Section Two provides an explanation of the major changes. Section Three offers a final discussion. The Appendix contains consolidated financial statements (for example, balance sheets, profit and loss statements, and loan portfolios) and their English translations. It also provides explanatory notes for some of the categories.

Reformulating Accounting Standards

The structure of a banking system's accounting information shows its capability to assess the behavior and performance of a given bank, and to provide public information about its practices. Periods of economic stability, strict informal managerial rules, concentration of corporate control of banks, and strong government protection in cases of corporate distress are some factors that might reduce the transparency and standardization of the accounting system for banks. When such a situation occurs, financial statements might not reflect the actual situation of a given bank. This was generally the case with Mexican banks until the crisis of 1995.

For decades some bank accounting practices were not consistent with the accepted accounting practices in Mexico. Indeed, before 1997 bank accounting procedures were different from those of non-financial firms. There was a belief that accounting criteria for a bank, due to the nature of its activity, were unique. Although to some extent this is true, it led to the creation of an accounting system that was hardly standardized or transparent; in sum, this accounting system misrepresented the financial situation of banks.

The special treatment that bank accounting standards enjoyed was reinforced by the fact that during most of the twentieth century banking was an industry protected from foreign competition in a relatively closed economy. Mexico's bank accounting standards varied considerably from the generally accepted accounting standards that prevailed internationally. To make matters more complicated, there were also voids in regulatory criteria regarding the information banks were required to disclose publicly.

Accounting rules are part of the regulatory frame of the financial system. The primary legal statute governing the operation of the banking system is the *Ley General de Instituciones de Crédito*, more commonly known as the Bank Law. In addition to the Bank Law, the operational regulation of banks and other financial intermediaries is implemented through a system of documents known as *Circulares* (*Circulars*), which recently have been renamed *Documentos Regulatorios* (*Regulatory Documents*). These documents permit regulatory implementation to be more detailed and faster than the execution of changes and specifications provided by the Bank Law. Most of the *Circulares* related to banking regulation are issued by the government agency for the supervision of financial intermediaries: the Comisión Nacional Bancaria y de Valores (CNBV), the National Banking and Securities Commission,. Although the Banco de México, the central bank, also issues

Circulares, most accounting standards are sanctioned by the *Circulares* issued by the CNBV.

Changes in accounting standards were not a subject of concern for regulators before 1982. In the 1950s, for instance, there were improvements in regard to the public disclosure of bank balance sheets. In 1970 the first step was taken towards the elaboration of consolidated financial statements of banks and their financial groups. It was at that moment banks were required to publish their financial statements. However, the authorities still did not publish the information of individual banks.

In 1982, after the government expropriated the private banking system, progress was made in the public disclosure and standardization of bank financial statements. The CNBV started to publish the information of individual banks in a relatively standardized form. However, between 1982 and 1990, banks were classified as government entities; this classification constrained incentives to create better accounting criteria. Nevertheless, better accounting criteria and disclosure rules needed to be developed. In the 1980s a decade of high inflation, many non-financial firms implemented inflationary adjustments in their financial statements; however, banks did not fully adopt similar adjustments. In 1990, following the re-privatization of banks, the Mexican Board of Public Accountants suggested changes in bank accounting criteria, but with little success.

The expansion of banking activity after re-privatization demanded a modern accounting system to effectively assess risks and to identify the actual financial situation of banks. The 1995 banking crisis exposed the deficiencies of bank accounting standards in Mexico. After the crisis, the CNBV carried out a substantial renovation of its methods for bank supervision and thus initiated a project for new accounting rules. Although there have been several regulatory documents regarding stipulations on accounting standards, the four major guidelines are *Circulares* 1248, 1298, 1343, and 1448.

The CNBV issued the first regulatory documents of this type in December 1995 (*Circulares* 1248 and 1298) to establish new accounting standards for banks. This regulation was expected to be fully implemented by the end of 1996. Some of the most important issues addressed in these regulations were capital requirements for banks, the way banks accounted past-due loans, and other practices that distorted the balance sheet. In 1996, banks underwent a transition process to assess the new accounting standards. Regulators considered that year to be a period for experimentation with the new rules, the adjustment of informational processes, and increased training and feedback between regulators and the financial sector.

In addition to the new accounting rules implemented in 1996, a new *Circular* was issued in January 1997 (*Circular* 1343).. This *Circular* redefined the accounting items under the basis of the previous changes. It also addressed a significant problem: prior to the new regulations, financial groups generally omitted a disclosure of changes in financial position, or of cash flows, in the statements they published. *Circular* 1343 also strengthened rules for the consolidation of information for a particular financial group, the effects of that information, and demanded a full recognition of inflationary effects. The changes introduced by *Circular* 1343 were to be implemented by the end of 1997. According to Hazera (2001), in 1998 most banks complied with the major stipulations of *Circular* 1343. However, most banks did not comply with some of its finer points—for example, the disclosure of interest income/expense details. Furthermore, banks infrequently adhered to the alternative source provision of *Circular* 1343.

In October 1999 the CNBV issued *Circular* 1448, to be implemented in January 2000. This *Circular* strengthened rules for grading and risk analysis, as well as rules for classifying securities and registering their value. It also strengthened disclosure rules for all transactions, especially those pertaining to loan portfolios. *Circular* 1448 also established that the CNBV has the legal right to issue special accounting rules for banks in financial distress, as well as for institutions that are involved in a process of financial restructuring.

The implementation of some of the new rules was gradual, with some only coming into effect in 2003. There have also been new modifications to the rules regarding specific details. The latest modifications to bank accounting standards have been related to the implementation of guidelines of the Basel Accord II (April 2003). These changes have emphasized the strengthening of the regulatory framework for large, internationally active banks. The main objectives of Basel II are to improve risk measurement and management, to link the amount of required capital to risks taken, to develop a dialogue between supervisors and banks, and to increase transparency. In addition, due to the recent internationalization of Mexican bank ownership by major bank corporations, there is a greater need for clear, internationally standardized accounting rules.

Broadly speaking, the corpus of post-1995 changes in bank accounting standards imply new criteria for accounting reports, disclosure of information, and capitalization rules. The changes of the past nine years have also implied changes in the valuation of securities portfolios and new rules and techniques for risk management, as well as for credit grading. In the next section, we explain these changes in greater detail.

Major Changes in Accounting Standards

Recent changes in bank accounting rules are the result of various factors. Most of them came about as a result of the reformulation of accounting rules for entries and reporting. These reformulations were designed to improve the informational quality of statements so that they accurately represented the true financial situation of the bank. However other changes were in regard to accounting rules; these were often combined with regulatory requirements for sound operation (for example, capitalization rules, government support programs for bank and borrowers, and the application of risk management techniques). The most important of these changes were:
New rules for capitalization.
Criteria to identify non-performing loans.
New rules for reserves and provisions for contingencies.
Entries for repurchase agreements (*reportos*) and for securities lending/borrowing.
Creation of government support programs for banks and borrowers.
Results from monetary updating of assets, liabilities, and equity.
Creation of accounts for extraordinary operations.
Practices on deferred taxes, credits, charges, and intangible assets.
Entry of brokerage operations and derivative financial instruments.
Rules for the consolidation of financial statements with subsidiaries and for firms belonging to the same financial group.
Application of risk management techniques.
Development of rules for the disclosure of consolidated financial statements.
"Suppletory" basis for the application of accounting rules.
Foreclosed assets.
Identification of liabilities and subordinated debt.

1) New rules for capitalization
The strengthening of capitalization rules, used to compel banks to be consistent with the Basel Agreements, required better disclosure of equity accounts and changes in the financial administration of equity. This was a necessary measure because banks had high levels of deferred taxes, investments in non-financial entities, and convertible subordinated debt that had been treated as part of bank capital. Banks also had low levels of reserves for credit risks. These changes represented the implementation of new financial criteria and the reformulation of accounting practices.
The most important of these changes were implemented after the crisis of 1995, when banks were required to fulfill capital requirements of at least 8% for risky assets and to create capital reserves. Other stipulations were implemented in a gradually escalated manner, starting in 2000 and ending in 2003. First, these changes limited the amount of deferred taxes as a

proportion of basic capital: the maximum level for 2003 was 20%. Second, the new rules limited the amount of investment in non-financial firms to a maximum of 15% in basic capital. And subordinated debt could no longer be included in basic capital anymore. Preventive reserves for credit had to be excluded from basic capital in accordance with the new rules for determining credit risks.

2) Criteria to identify non-performing loans.
Perhaps one of the most important changes in accounting rules is the classification of the loan portfolio and past-due loan portfolio. Before 1997, banks only registered uncollected payments in the past-due loan account, and each bank had slightly different criteria to determine whether a loan was non-performing. After 1997, past-due loans included the principal of the loan as well as the interest.
The following criteria summarize the manner in which loans and interest balances are considered past-due: loan and interests collectible in a lump sum are considered past-due 30 days after the due date. Loans with periodic repayments are considered past-due 90 days after the due date of the first unpaid installment. In the case of housing loans, the period is extended to 180 days. Consumer loans are considered past-due upon failure to make two consecutive repayments. Credit lines in checking accounts are considered past-due after the failure of two consecutive repayments. Overdrafts in checking accounts are considered past-due if the overdraft exists for more than 30 days.

3) New rules for reserves and provisions for contingencies.
In accordance with the Basel Accords I and II, there have been progressive improvements in the way reserves and provisions for risks are estimated. These criteria require that banks adhere to more stringent rules for grading credit risks. It also requires that banks create reserves for credit risks and provisions for contingent losses, and that this data be registered in the balance sheet. Prior to 1997, such contingent losses were counted against profits and losses, or against retained earnings. The new rules do not permit such practices. Reserves and provisions depend on the grade of risk for the loan portfolio; for this reason the amount of reserves corresponding to the different characteristics of loans must be diverse, variable, and dependent on the methodology of credit risk assessment.

4) Entry of repurchase agreements (*reportos*) and of securities lending/borrowing.
Repurchase agreements in Mexico are generally executed with money market instruments. Gross amounts of repurchase agreements were included in bank balance sheets before 1997. This implied double accounting because it

included the amount of the repurchase operations and the amount of the securities involved; this practice had the effect of inflating the bank's balance sheet. The new rules stipulate that the balance sheet only reports the net position in repurchase agreements. The gross amounts have to be reported in memorandum accounts.

The transactions of securities lending/borrowing represent a similar operation, only executed with stocks instead of money market instruments. Prior to 1997, banks carried these borrowed securities on their balance sheets. Today they no longer are allowed to do so, but must include borrowed securities in their memorandum accounts.

These changes mean that there are significant differences in the totals of assets and liabilities before and after 1997 because repurchasing agreements, as well as the lending and borrowing of securities, was (and continues to be) a source of revenue. In order to create accurate time series of bank assets, researchers must make the necessary adjustments to the pre-1997 balance sheets.

5) Creation of government support programs for banks and borrowers.

The FOBAPROA (*Fondo Bancario de Protección al Ahorro*) was the trust fund for bank deposit insurance; it performed the primary role of bank rescue during the crisis. Later it separated from the CNBV and changed its acronym to IPAB (*Instituto de Protección al Ahorro Bancario*). Since the crisis transformed many good loans in non-performing portfolio, the government implemented the ADE (*Apoyo a Deudores*, or Support for Debtors) program to support borrowers. These changes and the ADE program effected financial statements in the following manner:

a) After the 1995 banking crisis, most of the past-due loan portfolios of banks were transferred to the FOBAPROA (IPAB) trust fund. These loans were traded for bonds issued by FOBAPROA. Banks still register amounts of FOBAPROA and IPAB trust funds as part of their loan portfolio because they act as the holder of bonds that produce returns. When a loan held in one of these trusts is recovered, it is accounted for in the loan portfolio.

Accounting procedures for operations regarding trust funds are intricate. The transfer of past-due loan portfolios and their administration is complex and not always transparent due to the secrecy rules of some banks and to the political sensitivity of the program.

b) The ADE program was created to support borrowers with past-due rather than completely unserviceable loans. This was done by bank-borrower agreements to restructure or renew the loan. This portfolio was denominated in UDIs (units of investment measure, adjusted for inflation and exchange rate exposure); its current exchange equivalent in pesos was then transferred to an UDI trust.

6) Results from monetary updating of assets, liabilities, and equity.
Inflation and exchange rate changes have an effect on the financial situation of banks. New regulations stipulate that these effects have to be considered in the net financial position of the bank. However, the methodology for inflation adjustment varies depending on the item; for example, long term investments have to be adjusted with indices, and fixed assets with an assessment of their market prices.
There are several items in the consolidated financial statements that adjust assets, liabilities, and equity. The item that indicates these effects on the overall performance of the bank is Results after updating Inflation and Exchange Rate Position (*Resultados por Posición Monetaria Neta*, or *REPOMO*) in the statement of income.

7) Creation of accounts for extraordinary operations.
Special accounts for extraordinary operations have become important recently.. There are operations that are not part of the regular business of a bank, but still affect cash flows; for example, financial restructuring processes as well as mergers and acquisitions. Accounts for extraordinary operations help to manage these transactions.

8) Practices on deferred taxes, credits, charges and intangible assets.
These items have become important in bank financial statements as well as in the consolidated statements of financial groups. Charges and payments that are deferred represent future cash movements in the bank accounts, either adding or reducing cash flows. This generates temporary differences that are important for the assessment of bank profitability, as well as for tax purposes. Deferred taxes have always been a standard practice in bank accounting; however, recent regulations are stricter regarding their treatment. Recently deferred taxes have become a very important issue because banks have been allowed to defer their taxes in order to create prudential reserves or to undertake mergers and acquisitions. Deferred credits and deferred charges represent the involvement of the bank in operations with assets/liabilities of gradual exploitation.
Other items that represent future changes in cash flows are intangible assets. These assets represent the future rights of a bank on productive assets that have not yet been executed:, for instance, rights over a retirement fund portfolio, branch rights, and rights for provision of services.

9) Entry of brokerage operations and derivative financial instruments.
In order to assess the actual risk position of banks, the entry and disclosure of brokerage operations and positions on derivative financial instruments became stricter after 1997.. Regulations after 1997 also require banks to value their securities portfolio at its market (rather than historical) price. The

difference between acquisition cost of the security and its market value has to be registered in the profit and losses statement.
New regulations define valuation rules and the concepts with which they are applied.. Another change is that valuation rules would be applied equally for securities in assets and in liabilities. Revelation and presentation criteria also are an important part of the new rules.

10) Rules for the consolidation of financial statements with subsidiaries and firms belonging to the same financial group.
These rules, although not new, have become stricter since 1997 in order to assess the effect of related entities and report it in the bank and financial group´s consolidated financial statements. This includes institutional investments in financial firms, and subsidiaries that provide complementary services (for example, upstream and downstream firms). For firms that do not belong to these categories, financial statements have to express the participation of the bank.

11) Application of risk management techniques.
One of the areas of bank regulation and management that has witnessed significant progress in the last 15 years has been risk management techniques. Regulations after 1997 require that banks have a risk management division; more recently the Basel Accord II has strengthened this requirement. Such regulation was also necessary because banks engage in brokerage operations, hold derivative securities, and participate in repurchase operations. While this regulation does not have a direct impact on accounting standards, it does have an impact on the grading of risks, which in turn influences reserves and provisions for losses in the financial statements. It also has an effect in the nature of the information that the bank has to disclose.

12) Development of rules for the disclosure of consolidated financial statements.
These rules, of which there are three types, are an important part of the changes in accounting standards after 1997:
a) There are items stipulated by the regulatory authorities that banks must reveal in their financial statements. These items are included in the last section of this paper.
b) Financial statements have to be accompanied by complementary financial information (quantitative and qualitative); for instance, the disclosure of investments, the accounting rules of different types of risks, and information concerning risk evaluation.
c) Items that reflect cash flows from ordinary and extraordinary operations have to be clearly separated.

13) "Suppletory" basis for application of accounting rules
The CNBV, with the recommendation of the Mexican Institute of Public Accountants (IMCP), established an alternative source provision, also known as "suppletory basis" for applying accounting rules. These criteria work in the following manner. When a bank operation does not have a registration rule established by the CNBV, the bank has to follow rules established by the IMCP in the Mexican *GAAP*. If the IMCP does not have a rule for the operation, the rules to be applied are those of the *GAAP* established by the International Accounting Standards Board (IASB) and the International Accounting Standards Committee (IASC).
However, in order to make the suppletory mechanism effective, the CNBV has to define the basis of comparison between local and international operations. The implementation of this rule is still loose. In a study about the implementation of new accounting standards, Hazera (2001) found that banks infrequently adhered to the alternative source provision, or "suppletory rule".

14) Foreclosed Assets
The 1995 crisis generated a large amount of non-performing loans. Recovery of the non-performing portfolio, either in the banks or in the hands of the IPAB trusts, implies that banks and IPAB authorities procure the foreclosure of assets from debtors in default. These assets could be securities, tangible asset, and real state. Since legal processes for defaults exhibit inefficiencies and high transaction costs, there is still a lack of precision in the quality of these operations.
Although changes in accounting rules try to reflect the actual value of these assets, there is still debate among accountants, financial practitioners, and regulators about how foreclosures should be accounted. New rules establish that foreclosed assets have to be divided between those for immediate public sale and those for the bank's use. In addition, foreclosed assets have to be registered with their assessed value. Some practitioners consider that a prudential approach would be to register these assets with their book value.

15) Identification of Liabilities and Subordinated Debt
The treatment of bank risks affects the structure of liabilities. As a consequence, new accounting rules establish that liabilities with a maturity term less than one year have to be differentiated from those with longer maturity terms.
The treatment of subordinated debt represents another change in regard to liabilities. Banks pioneered the emergence of debt markets in Mexico during the 1990s. For this reason many banks issued convertible subordinated debt, which permitted them to obtain injections of funds in an innovative manner. New rules establish that convertible subordinated debt has to be registered in the liabilities. In the past this type of debt was registered in the equity

account—a practice that created the problem of overestimated bank capital. Nevertheless, debt markets still need better regulation because financial growth and development in Mexico during the past few years have surpassed the regulatory stipulations.

Final Discussion

In the last decade, Mexico has underwent a process of internationalization of its banking industry. Today more than 80% of the equity of Mexican banks belongs to internationally active bank corporations. The internationalization of the banking industry demands a more transparent regulation, which includes standardized accounting rules and better disclosure of information. Hazera (2001) points out that Mexico was the first emerging market compelled to reformulate the financial reporting of its banks as a result of a financial crisis. The case of Mexico can serve as an example of the relevance of these changes, as well as of their scope and limitations.

In this paper we attempt to clarify the nature and structure of the new accounting standards, and how they have affected financial statements and their interpretation. For scholars and analysts, the major effects of the new standards have been in the interpretation of the information provided by banks and in the compilation of historical series that permit an analysis of bank performance over the course of several years.

However, Mexican banks have also experienced changes that exist beyond their accounting apparatus. Operational processes to issue information that satisfies new accounting criteria have been affected; to update these processes, it has been necessary to invest in new information systems and reengineer the flow of information. Banks also had to develop processes that permitted a prompt indentification of non-performing assets. In regard to affiliates in other countries, banks have had to register their accounting movements in Mexican pesos in a punctual manner, instead of reporting transactions in foreign currencies and then converting them to pesos at the end of the accounting term. Banks have also had to better coordinate their efforts to provide accurate, consolidated financial statements.

There is no doubt that the new accounting rules established by regulatory documents 1248, 1343 and 1448 of the CNBV are still in a process of change and adaptation; perhaps they will suffer substantial changes in the future. Differences still exist between bank accounting rules (with respect to the Generally Accepted Accounting Principles in Mexico) and the rules of the International Accounting Standards Board. While a convergence of Mexican accounting standards with international rules is expected, the classification of financial operations still vary from country to country. National differences emerge despite the fact that financial instruments, products, and transactions are either very similar or the same worldwide. However, legal and regulatory stipulations, accounting history, tax structure, and local business practices create differences in the way financial transactions are recorded in the financial statements.

The Basel Accord II requires that banks implement a progressive adaptation of risk evaluation techniques; one result of this requirement is a changing demand for bank financial information. This will generate adaptive transformations of financial information in the future, and perhaps a new motivation to change existing accounting rules. The challenge for Mexican regulators and bankers will be to maintain a system that provides transparent information and yet is effective enough to recognize the sources of profitability and financial distress of a bank.

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Appendix

Bank Financial Statements and their English Equivalence

This Appendix uses the bank financial statements published by the CNBV after 1997 to translate into English the major accounting categories and to discuss some of the changes in these categories. Since the CNBV does not publish reports in English, the authors find it useful to provide a translation of this information to help understand and interpret the financial statements of Mexican banks. We include the consolidated balance sheet, the consolidated statement of income, and the classification of the loan portfolio reported by the supervisory agency. What follows is an unofficial approximation.

It is important to clarify that recent regulatory changes attempt to adapt bank accounting to the Mexican *GAAP*. However, this has proven to be a complex process. Bank operations and financial transactions often require special accounting categories that do not exist in non financial firms. In addition, international bank accounting procedures are not strictly equivalent to the Mexican *GAAP*. There remain particularities of every national financial system that are problematic for standardized equivalences.

CONSOLIDATED FINANCIAL STATEMENTS

PRESENTATION POST-1997

BALANCE GENERAL	CONSOLIDATED BALANCE SHEET
Activo	**Assets**
Disponibilidades	**Cash and Due from Banks**
Instrumentos Financieros Before 1999 it was: Inversiones en Valores	**Investment in Securities**
Saldos deudores en operaciones de reporto This item is expressed in net terms in the balance sheet; gross amounts contracted under repurchase agreements are registered in memorandum accounts after 1997, before 1997 repurchase agreements tended to inflate the balance sheet, see previous section	**Debit Balances of repurchase agreements**
Valores a recibir en operaciones de préstamo Not included in the CNBV statements after 2001.	**Securities lending**
Operaciones con valores y derivados Before 2001: Operaciones con instrumentos financieros derivados.	**Derivative Financial Instruments**
Cartera de crédito vigente After 1999 there is a breakdown of this item in different categories.	**Current/Performing Loan Portfolio**
Cartera de crédito vencida Changes in regulations stipulate that after 1997 the principal of past due loans has to be registered in this account. For details see section 2 in the paper. After 1999 there is a breakdown of this item in different categories.	**Past Due Loan Portfolio**

Estimación preventiva para riesgos crediticios	**Accrual for loan losses**
Otras cuentas por cobrar (neto) This account includes payments for services and due from clients that is expected to be recovered; it also includes guarantees and collaterals expected to be foreclosed.	**Other Accounts Receivable**
Bienes adjudicados	**Foreclosed Assets**
Inmuebles, mobiliario y equipo (neto) Property is net of depreciation	**Property, furniture and equipment**
Inversiones permanentes en acciones Most of these investments are institutional investments: stock held in affiliates, subsidiaries, and other long-term investments.	**Permanent Investment in Shares**
Impuestos diferidos (neto) Deferred taxes can be quite large for some banks, given that the regulations that require the banks to create preventive reserves also allow them to defer fiscal obligations in order to do so.	**Deferred Taxes, net**
Otros activos, cargos diferidos e intangibles Intangible assets represent the rights of the bank over future transactions; for instance, the rights on a portfolio of retirement funds, opening new branches, and the development of new products.	**Other Assets, Deferred Charges, and Intangible Assets**
Cobertura de riesgo por amortizar en créditos para vivienda vencidos, UDIS This is a reserve for credit risks. However, because the past-due loan portfolio of housing mortgages under UDIs program is very large, correspondent statutory reserves would also be very large. This in turn would effect the situation of the bank. This special reserve is applied to the portfolio transferred to the Fideicomiso ADE (Trust for the Government Program of Support to Borrowers). Not exhibited after 2001.	**Accrual for past due loan portfolio in housing mortgages under UDIs Program**

Pasivo	Liabilities
Captación Directa Includes savings and deposits from the public, also classified as Captación Tradicional, to differentiate it from interbank deposits.	**Current Liabilities to Public**
- Depósitos	**Deposits**
- Depósitos de exigibilidad inmediata After 1999 there is a breakdown of this item in different categories.	**Demand Deposits**
- Depósitos a plazo After 1999 there is a breakdown of this item in different terms.	**Time Deposits**
Bonos bancarios en circulación	**Bonds**
Préstamos interbancarios y de otros organismos After 1999 there is a breakdown of this item in different categories: time, short-term, long term.	**Interbank loans. Includes loans from non-bank financial entities**
Bancos y corresponsales	**Deposits from banks and correspondent entities**
Saldos acreedores en operaciones de reporto Same as the repurchase agreements on the assets side of the balance sheet. This account is the net position; gross amounts are registered in memorandum accounts	**Credit Balances of Repurchase Agreements**
Valores a entregar en operaciones de préstamo	**Securities borrowing**
Operaciones con instrumentos financieros derivados	**Derivative Financial Instruments**
I S R y P T U por pagar	**Income Tax and Employee Statutory Profit Sharing**
Acreedores diversos y otras cuentas por pagar	**Sundry Creditors and other Accounts Payable**
Obligaciones subordinadas en circulación	**Subordinated Debt**
Impuestos diferidos (neto) Some deferred taxes are accounted for on the liabilities side of the balance sheet because banks might incur operations that generate large tax liabilities (for instance, mergers and acquisitions). Banks defer these so as not to affect their financial results that quarter.	**Deferred Taxes, net**

Capital Contable	**Stockholders Equity/Net Worth**
Capital Contribuido	**Paid in Capital**
- Capital social	**Capital Stock**
- Prima en venta de acciones	**Premium on Stock Sales**
- Obligaciones subordinadas de conversión obligatoria This is Convertible Subordinated Debt of mandatory conversion	**Convertible Subordinated Debt**
- Aportaciones de capital pendientes de formalizar Not included in the CNBV statements after 1999.	**Pending Capital Contributions**
- Aportaciones para absorber pérdidas Not included in the CNBV statements after 1999.	**Contributions to Absorb Losses**
Capital Ganado	**Earned Capital**
- Reservas de capital	**Capital Reserves**
- Resultado de ejercicios anteriores	**Retained Earnings**
- Resultado por valuación de títulos disponibles para la venta	**Cumulative Results from updating/appraising Investments in Securities**
- Resultado por conversión de operaciones extranjeras	**Cumulative Results from Net Currency Position**
- Resultado por cambios en políticas constables Not included in the CNBV statements after 1999.	**Cumulative Results from Changes in Accounting Standards**
- Efectos por valuación de empresas asociadas y afiliadas	**Cumulative Results from updating/appraising Shares of Associate and Affiliate Firms**
- Exceso (insuficiencia) en la actualización de capital	**Excess (loss) in appraisal of capital or Cumulative Results from updating/appraising Stockholders Equity**
- Resultado por tenencia de activos no monetarios	**Cumulative Results from non-monetary Assets**

- Resultado por valuación de activo fijo	**Cumulative Results from appraisal of fixed Assets**
- Resultado por valuación de inversiones permanentes en acciones	**Cumulative Results from appraisal of Permanent Investments in Shares**
- Resultado por ajustes por obligaciones laborales al retiro	**Adjustment for retirement programs**
- Resultado neto	**Net Results**

Cuentas de Orden Between 1999 and 2001, the CNBV reduced the number of items of this section that included in the reports. Here we include all relevant items.	**Memorandum Accounts, Commitments and Contingent Liablities**
Avales otorgados	**Credit Commitments and Guarantees Granted**
Otras obligaciones contingentes	**Other Contingent Liabilities**
Apertura de créditos irrevocables	**Letters of Credit**
Fideicomisos programas UDIs	**UDIs Program Trust**
Bienes en fideicomiso o mandato	**Mandates and Trusts**
Bienes en custodia o en administración	**Administration Trusts**
Operaciones de banca de inversión por cuenta de terceros (neto)	**Investment Trusts, net**
Montos comprometidos en operaciones con el FOBAPROA o el IPAB	**Trusts in FOBAPROA and IPAB Agreements**
Montos contratados en instrumentos derivados	**Derivative financial instruments**
Inversiones de los fondos del S.A.R.	**Employees' Retirement Funds**
Provisiones para riesgos crediticios de aplicación gradual This account was important before and during the 1995 crisis. Banks that had insufficient reserves to hedge their credit risks required a deferred or gradual application of reserves. It has also proven important when banks identify credit risks before the corresponding loans enter into trouble, so that the bank can apply a gradual preventive reserve Not included in the CNBV statements by 2001.	**Provision for Deferred Statutory Reserves**

Títulos a recibir por reporto	**Receivable Contracts under repurchase agreements, total**
Acreedores por reporto	**Creditor amount under operations with repurchase agreements, total**
Deudores por reporto	**Debitor amount under operations with repurchase agreements, total**
Títulos a entregar por reporto	**Payable Contracts under Repurchase Agreements, total**
Otras cuentas de registro	**Other Memorandum Accounts**

ESTADO DE RESULTADOS Between 1999 and 2001, the CNBV reduced the number of items of this section that included in the reports. Here we include all relevant items.	**CONSOLIDATED STATEMENTS OF INCOME**
Ingresos por intereses	**Interest Income**
- Intereses a favor por cartera de crédito	**Interest Income from loan portfolio**
… por cartera Comercial	**Interest Income from Commercial Loans**
… por cartera de Créditos a intermediarios financieros	**Interest Income from Loans to financial intermediaries**
… por cartera de Consumo	**Interest Income from Consumer Loans**
… por cartera de Vivienda	**Interest Income from Housing and Mortgage Loans**
… por cartera de Créditos a entidades gubernamentales	**Interest Income from loans to Government Entities**
… por cartera de Créditos al FOBAPROA	**Interest Income from FOBAPORA and IPAB Agreements**
- Intereses a favor por valores	**Interest Income from Securities Holdings**
- Intereses a favor por disponibilidades	**Interest Income from Cash and Due from Banks**
Comisiones a favor por créditos	**Income from Commissions on Loans**
Premios devengados a favor (reportos y préstamos de valores)	**Premium on repurchase agreements and securities lending**
Valorización de UDIS (saldo acreedor)	**Appraisal of UDIs (creditor)**
Utilidad cambiaria	**Surplus from Updating Exchange Rate Changes on Operations in Foreign Currency**

Retiros de excedentes del márgen de fideicomisos UDIS This account shows loan recovery above the programmed government support for loan portfolio in UDIs Trust.	**Excess Gains from the recovery off loans in the UDIs Program**
Incremento por actualización de ingreso por intereses	**Surplus from Inflation Update**
Gastos por intereses	**Interest Expense**
- Intereses a cargo por depósitos y obligaciones	**Interest Expense from Deposits and Liabilities**
… depósitos de disponibilidad inmediata	**Interest Expense from Demand Deposits**
… depósitos a plazo	**Interest Expense from Time Deposits**
… bonos bancarios	**Interest Expense from Bank Bonds**
… depósitos y préstamos de bancos y otros organismos	**Interest Expense from Deposits from Banks and other Financial Institutions**
… obligaciones subordinadas en circulación	**Interest Expense from Subordinated Debt**
Comisiones a cargo por financiamientos recibidos	**Expense from Commissions on financial transactions**
Premios devengados a cargo (Reportos y préstamo de valores)	**Financial Expense from repurchase agreements and securities borrowing**
Valorización de UDIS (saldo deudor)	**Appraisal of UDIs (Debtor)**
Pérdida cambiaria	**Losses from Updating Exchange Rate Changes on Operations in Foreign Currency**
Incremento por actualización de gastos por intereses	**Expenses from Inflation Update**
Resultado por Posición Monetaria, neto (margen financiero) REPOMO (*Resultado por Posición Monetaria*) is the net financial position of the bank after inflationary adjustments; it also reflects inflationary adjustments in assets, liabilities and equity	**Results after updating Inflation and Exchange Rate Position, net**
Margen financiero	**Financial Margin**
Estimación preventiva para riesgos crediticios	**Accrual for Loan Losses**
Margen financiero ajustado por riesgos crediticios	**Financial Margin after Accrual for Loan Losses**
Comisiones y tarifas	**Comissions**

- Cobradas	**Comission Income**
- Pagadas	**Comission Expenses**
Resultado por intermediación	**Results from Financial Intermediation**
Ingresos (egresos) totales de la operación	**Total Operating Income**
Gastos de administración y promoción	**Administrative and Promotional Expenses**
- Gastos de personal	**Personnel Expenses**
- Gastos de Administración	**Administrative Expenses**
Depreciaciones y amortizaciones	**Depreciation and Amortization**
Resultado de operación	**Net Operating Income**
Otros gastos y productos (Neto)	**Other expenses, net**
- Otros gastos	**Other expenses**
- Otros productos	**Other income**
Resultado antes de ISR y PTU	**Income before Income Tax and Employee Statutory Profit Sharing**
ISR y PTU causados	**Income Tax and Employee Statutory Profit Sharing**
ISR y PTU diferidos	**Deferred Income Tax and Employee Statutory Profit Sharing**
Resultado antes de participación en subsidiarias y asociadas	**Income Before Equity in the Results of Operations of Unconsolidated Subsidiaries**
Participación en resultado de subsidiarias y asociadas	**Equity in the Results of Operations of Unconsolidated Subsidiaries**
Resultado por Operaciones Continuas This item is an aggregate value that reflects the cash flow from ordinary or traditional operations of the bank	**Income from Ordinary Operations**
Operaciones Discontinuas, Partidas Extraordinarias y Cambios en Políticas Contables (Neto) Results from extraordinary operations--for instance, mergers and acquisitions and financial restructuring programs	**Effect of extraordinary operations and changes in accounting procedures, net**
Resultado Neto	**Net Income /Net Results**

Cartera de Crédito Classification of loan Portfolio as Presented by the CNBV before 1997. This format shows the different types of credits according to their type or contractual nature.	**Loan Portfolio**
Cartera Vigente Total	**Current/Performing Portfolio (Total)**
Descuentos	**Discounts**
Préstamos quirografarios	**Clean (unsecured) Loans**
Préstamos con colateral	**Collateralized Loans**
Préstamos prendarios	**Loans Secured by Pledges**
Créditos Simples y Créditos cuenta corriente	**Clean Loans and Advances**
Préstamos con Garantía de unidades industriales	**Loans with Guarantee on Industrial Plants**
Préstamos de Habilitación o avío	**Secured Working Capital Loans**
Préstamos Refaccionarios	**Plant and Equipment Loans**
Préstamos Inmobiliarios a Empresas de Producción de bienes y servicios	**Mortgage Loans to Business**
Préstamos para la vivienda	**Mortgage Loans for Housing**
Otros créditos con garantía inmobiliaria	**Other Mortgages**
Créditos presonales al consumidor	**Consumer Loans to Individuals**
Adquisición de bienes de consumo duradero	**Loans for Adquisition of Durable Goods**
Tarjetas de crédito	**Credit Card Lending**
Préstamos personales	**Loans to Individuals**
Disp. En exceso de dep. a la vista de cta. Cte.	**Due from surplus on advances**
Cred. venidos a menos aseg. con gtías. adic.	**Troubled Loans with Additional Collateral**
Cartera de arrendamiento financiero	**Financial Leasing Portfolio**
Cartera reestructurada This category consists of loans that, after a	**Reestructured Loan Portfolio**

restructuring program, have been transferred from the past-due loan portfolio to the performing loan portfolio.	
Cartera renovada This category consists of loans that have been transferred from past-due loan portfolio to the performing loan portfolio without restructuring them.	**Renovated Loan Portfolio**
Créditos al Gobierno Federal programa "ADE"	**Loans to the Government under ADE Program**
Préstamos a Fobaproa por venta de Cartera	**Loans under Fobaproa Program**
Cred. al vehículo de cobro esquema pago mínima	**Lending for Acquisition of Vehicles**
(-)Reserva para castigos	**Reserves for Write-downs**
Cartera vencida bruta	**Past-Due Loan Portfolio**
(-)Reserva para castigos	**Reserves for Write-downs**
Redescuento This category includes rediscounts with government development banks	**Rediscounts or Discounts**

Cartera de Crédito Loan Portfolio as presented by the CNBV after 1997. This format presents the major economic activities for which credit is garanted.	**Loan Portfolio**
Cartera Vigente	**Current/Performing Loan Portfolio**
Comercial	**Commercial Loans**
Créditos a entidades financieras	**Loans to Financial Entities**
Consumo	**Consumer Loans**
Vivienda	**Mortgage Loans for Housing**
Créditos a entidades gubernamentales	**Loans to Government Entities**
Créditos al FOBAPROA o al IPAB	**Loans in Fobaproa and IPAB**

	Programs
Total	Total Loans
Cartera vencida bruta	**Past Due Loan Portfolio, gross**
Comercial	Commercial Loans
Créditos a entidades financieras	Loans to Financial Entities
Consumo	Consumer Loans
Vivienda	Mortgage Loans for Housing
Créditos a entidades gubernamentales	Loans to Government Entities
Total	Total Loans