

BANCA AFIRME, S. A.
Institución de Banca Múltiple,
Afirmé Grupo Financiero y Subsidiaria
Notes to the Consolidated Financial Statements
(Mexican pesos in millions, except when otherwise indicated)

COMPREHENSIVE RISK MANAGEMENT

The function of identifying, measuring, monitoring, controlling and reporting the different types of risk to which Banca Afirmé is exposed, is in charge of the Comprehensive Risk Management Unit (UAIR), which reports to the Risk Policies Committee, an entity instituted by the Banca Afirmé Board of Directors in order to monitor the comprehensive risk management process.

The Risk Policies Committee establishes risk policies and strategies, monitors them and monitors their compliance.

The key UAIR objectives are the following:

- Standardize risk measurement and control.
- Protect the capital of the institution against unexpected losses due to market movements, credit defaults, liquidity of resources and operational, legal and technological risks.
- Develop valuation models for the different types of risks.
- Carry out diagnoses based on Comprehensive Risk Management, availability and quality of risk information.

Banca Afirmé has methodologies for risk management in its different phases, such as credit, legal, liquidity, market and operational. Risk evaluation and management has been divided into the following areas:

- I. Quantifiable risks are those for which it is possible to form statistical bases that allow measuring potential losses, and within these are the following:
 1. Discretionary risks are those resulting from taking a risk position, such as:
 - a) Market risk
 - b) Credit risk
 - c) Liquidity risk
 2. Non-discretionary risks are those resulting from the operation of the business, but which are not the result of taking a risk position.
 - a) Operational risk including:
 - Technological risk
 - Legal risk
- II. Non-quantifiable risks, which are those derived from unforeseen events for which a statistical base cannot be established to measure potential losses.

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In order to identify, measure, monitor, limit, control and disclose the different types of risks that it faces in its daily activities, Banca Afirme in its daily processes in terms of Risk Management adheres to the "General provisions applicable to credit institutions" published in the Official Gazette of the Federation on December 2, 2005. Banca Afirme considers the modifications to said Provisions that are modified through Resolutions published in the aforementioned Official Gazette.

The updating and improvement of the policies and procedures for risk management has been a continuous process, in accordance with the established objectives and with the participation of all the areas involved, continuously maintaining the dissemination of the Risk Manual and its continuous updating, to through the Banca Afirme Intranet Network.

Market risk

Market Risk is defined as the volatility of income due to changes in the market, which affect the valuation of positions for active, passive or contingent liability operations, such as: interest rates, exchange rates, price indices, among others.

To measure market risk, Banca Afirme applies the non-parametric historical simulation methodology to calculate the Value at Risk (VaR), considering a confidence level of 97.5%, a time horizon of 1 day and a history of 260 days.

The meaning of the VaR, under this method, is the potential overnight loss that could be generated in the valuation of the portfolios on a certain date, under the assumption that the 259 immediate historical scenarios are repeated in the future, these scenarios are arranged from greater loss to greater profit and the VaR is determined based on the confidence level of 97.5%.

This methodology is applied to all the portfolios that Banca Afirme has identified as Business Units and that are exposed to variations in risk factors that directly affect their valuation (domestic interest rates, surcharges, foreign interest rates, rates exchange, among others).

As of the second quarter of 2022, in the portfolio *Money Table* it has a position of 93.539 million pesos.

In order to show the behavior of the VaR during Q2 2022, the values at the end of the second quarter of 2022 as well as the comparison with the previous quarter, for each business unit of the portfolios shown, are presented.

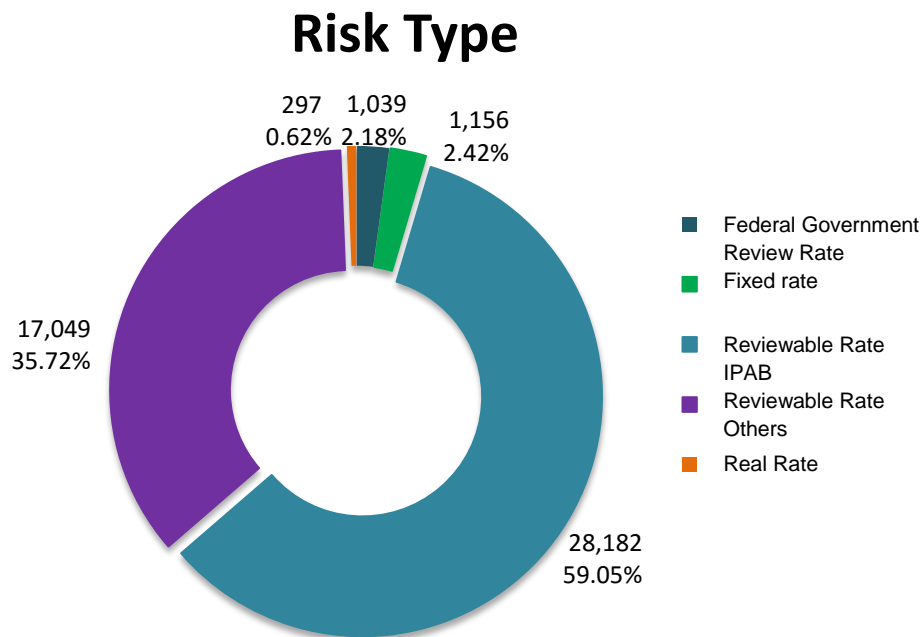
Trading Business Unit	VaR	
	31-Mar-22	30-Jun-22
Money table	(18.79)	(5.54)
Treasury	(5.28)	(4.40)
Global	(20.46)	(5.47)

Business Unit Held-to-maturity	VaR
	30-Jun-22
Treasury	(2.39)
Global	(2.39)

The following graph shows the composition of the Total portfolio for Banca Afirme at the end of Q2 2022 according to the Type of Risk:

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Risk Type	Amount *
Federal Government Review Rate	1,039
Real Rate	297
Reviewable Rate IPAB	28,182
Reviewable Rate Others	17,049
Exchange rate	-
Fixed rate	1,156
Total	47,723



Note: *Within the composition of the portfolio at the end of 2Q 2022, 1,039 MDP of the issue XR_BREMSR_251023 is considered, which is a Reportable Monetary Regulation Bond of the Banco de México, with the purpose of regulating liquidity in the money market.

The average global VaR during the second quarter of 2022 was 15.56, which corresponds to 0.17% of net capital. The following is the average Value at Risk for the corresponding quarter for the different business units.

Trading Business Unit	Average VaR Apr 2022 - Jun 2022
Money table	(14.27)
Treasury	(5.30)
Global	(15.56)

Business Unit	Average VaR Apr 2022 - Jun 2022
Held-to-maturity	(15.56)

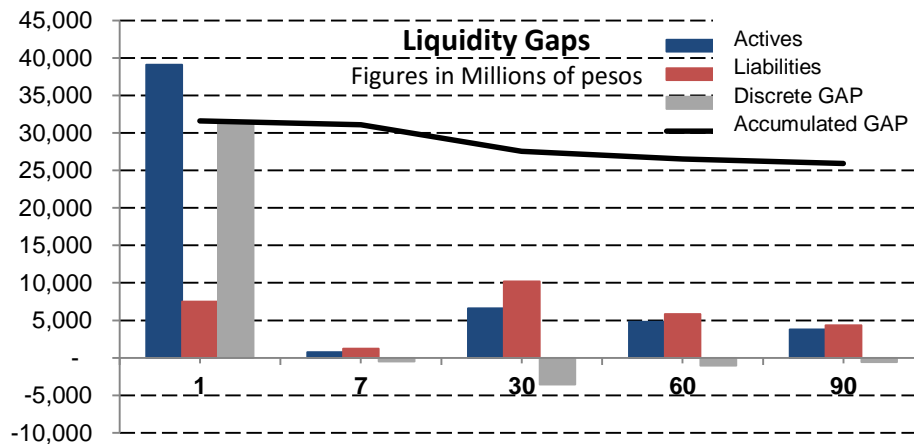
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Money table	-
Treasury	(2.33)
Global	(2.33)

Liquidity risk

Liquidity Risk is defined as the potential loss due to the impossibility of renewing liabilities or contracting others under normal conditions for Banca Afirme due to the premature or forced sale of assets at unusual discounts to meet its obligations. To measure the liquidity risk, the Liquidity Coverage Ratio (CCL) and the liquidity bands are determined, considering the nature of the assets and liabilities on the balance sheet over a period of time.

The accumulated band at 60 days of Banca Afirme was \$ 26,511 million pesos at the end of Q2 2022, a level that respected the established limit. The bands for term up to 90 days would be the following:



On a daily basis, the Liquidity Coverage Coefficient (CCL) is monitored, since the Supervisory Authority imposes a minimum to promote the short-term resistance of the liquidity risk profile, guaranteeing that the Institution has sufficient high-quality liquid assets to overcome a significant stress scenario over a 30-day period.

As of June 30, 2022, the Liquidity Coverage Ratio is 180%. In order to show the behavior of the CCL, the values at the end of Q2 2022 compared to the previous quarter are presented below.

CCL evolution	March 2022	June 2022
Computable Liquid Assets (Weighted)	27,571	31,106
Net Exits at 30 days	13,923	17,310
CCL	198%	180%

The evolution of Computable Liquid Assets compared to the immediately preceding quarter is shown below:

Computable Liquid Assets Evolution (Unweighted)	March 2022	June 2022

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Liquid Assets Level 1	27,571	31,063
Liquid Assets Level 2	-	50
Total Liquid Assets	27,571	31,114

As of June 30, 2022, the Net Stable Financing Coefficient is 146.98%,

Net Stable Financing Ratio	March 2022	June 2022
Amount of Stable Financing Required	48,348	51,150
Amount of Stable Financing Available	71,114	75,182
CFEN	147%	147%

For its part, the market VaR adjusted for liquidity, which is interpreted as the loss that the bank would incur due to the time it would take to liquidate the position of the securities in the market, for this the VaR adjusted for liquidity is estimated as the product of the daily market VaR times the square root of 10.

In order to show the behavior of the VaR adjusted for liquidity, the values at the end of Q1 2022 compared to the previous quarter are presented below.

Trading Business Unit	Liquidity-adjusted VaR	
	31-mar-2022	30-jun-2022
Money table	(59.42)	(17.52)
Treasury	(16.69)	(13.90)
Global	(64.70)	(17.28)

The following shows the average liquidity-adjusted Value at Risk of the monthly closings of the corresponding quarter of the different business units.

Trading Business Unit	VaR adjusted for average liquidity
	apr 2022 - jun 2022
Money table	(45.11)
Treasury	(16.76)
Global	(49.22)

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In general, the financing needs of the Institution's loan portfolio are covered by traditional fund-raising, however, other liquidity elements are maintained if required as credit lines and the ability to issue bank paper in the market, not encountering legal, regulatory or operational limitations.

Traditional Catchment June 30, 2022	
Immediate enforceability deposits	39,861
Fixed term deposits	36,784
Credit Securities Issued	-
Capture without movements	77
Total	76,723

It is important to mention that the financial desks use a financing strategy via repurchase of direct positions, except for those securities that remain in order to maintain an adequate level of liquid assets.

Liquidity risk management is executed in the Treasury and Risk Management areas.

The Treasury area performs daily monitoring of current and future liquidity requirements, taking the necessary steps to ensure that the necessary resources are available. On the other hand, the Risk Management area performs liquidity risk analysis by analyzing liquidity gaps and repricing, as well as the effects on the structural balance of possible adverse scenarios. Both areas have a constant coordination.

To monitor the various risks to which the Institution is exposed, in particular liquidity risk, it has an organizational structure the following decision-making areas and bodies participate in:

- The Treasury area as the one in charge of managing resources.
- The Risk Management area as the area in charge of monitoring and reporting to the Risk Policy Committee on liquidity risk measurements and stress tests, as well as reporting to the Board of Directors on compliance with the established limits by said Council.
- The Assets and Liabilities Committee is in charge of monitoring the balance sheet and proposing balance management strategies, as well as authorizing hedging strategies.
- The Risk Policies Committee is in charge of approving risk measurement methodologies, stress test scenarios, risk monitoring and, where appropriate, establishing courses of action.
- The Board of Directors establishes the maximum tolerance to the risks to which the Institution is exposed, as well as authorizing contingency action plans in case of requiring liquidity.

As mentioned before, the Treasury and Risks areas generate reports that are distributed and presented to the Committees in charge of liquidity risk management, such as cash flow gaps, repricing gaps, stress test analysis and uptake compared to portfolio structure.

The bank's liquidity strategy is based mainly on two main objectives, the first is to maintain an amount of liquid assets that is significantly higher than the bank's liquidity needs and; the second is to extend the term of its collection. With the foregoing, all its clients and counterparties are guaranteed compliance with the commitments assumed by the bank.

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The bank's centralized financing strategy is based on traditional deposits through the commercial network. With this strategy, fund-raising generates greater diversification and stability. The bank has significant incentives to generate higher deposits, particularly in terms of term. Our network has been increased to be able to penetrate with new clients in different geographical areas, deconcentrating our clients. In addition to the above, there are sources of financing in the formal market, as they have ample credit lines.

The monitoring of the different indicators mitigates the liquidity risk since these indicators induce the diversification of the deposits, to extend the term of the same, increase the liquid assets and punish the concentration both in term and in clients and the reduction of the liquid assets.

Stress tests consist of applying scenarios where there are situations that could be adverse for the Institution and thus being able to verify the Institution's capacity to face the realization of said scenarios. In the particular case of liquidity risk, scenarios are made based on variables characteristic of financial crises that affect the liquidity of banks in general. Said tests are presented to the Risk Policies Committee on a monthly basis for analysis. The variables used to build adverse scenarios are overdue portfolio, interest rates and sources of financing, mainly.

The institution, in accordance with the regulations applicable to Credit Institutions, has liquidity contingency plans in case at any time situations arise that could affect the Institution. These plans contain the functions of the personnel who would participate in the necessary actions, the authorization levels and the required information flow. The aforementioned actions are specifically identified and designed to generate liquidity, considering the Bank's structure for this purpose and are divided according to the severity of possible scenarios.

Credit risk

Credit Risk is defined as a potential loss in credit due to non-payment of a borrower or counterparty.

Therefore, since Credit Risk is the risk that clients do not comply with their payment obligations, its correct administration is essential to maintain a quality credit portfolio.

The objectives of Credit Risk Management at Banca Afirmé are:

- Calculate credit risk exposure over time, considering and evaluating the concentration of exposures by risk ratings, geographic regions, economic activities, currencies and type of product.
- Create diversification strategies for the credit portfolio, defining limits for it.
- Implementation of a global credit risk management supervising all operations and aspects related to credit risk.

The methodology used by the Bank to determine the expected and unexpected losses of the loan portfolio is based on the *Enhanced Credit Risk +* model (a variant of the original *Credit Risk +* from Credit Suisse). This model generates calculations taking into account the diversification of the portfolio by sectors, as well as the risk considering the correlation of the sectors in which it has participation, that is, the risk taking into account the client's participation within different sectors.

For the probability of default of the loan portfolio, the criteria are applied in accordance with the general rating methodology established in the provisions issued by the National Banking and Securities Commission. For this calculation, only the Banca Afirmé portfolio is considered (without subsidiaries/affiliates).

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The result of our Exposure, Expected Loss with *Recover* (Recovery Factor) and Credit VaR with *Recover* at the close of Q2 2022 it is as follows:

VaR as of June 30, 2022

Portfolio	Exposition	Expected Loss (Without Recover)	Recover	Expected Loss (With Recover)	VaR @ 99% (With Recover)
Commercial	34,859	4,094	64%	1,462	2,848
Mortgage	10,739	1,212	94%	75	97
Personal Loans	3,775	426	22%	333	382
Credit card	973	154	26%	113	126
Self-term	2,855	132	42%	76	90
Total	53,202	6,017		2,060	3,544

*VaR @99% [Credit Risk + Methodology]

As can be seen, the VaR stood at \$ 3,544 million which meant a consumption of 118.1% of the authorized limit for \$3,000 million. It should be noted that any excess is notified to the Council through the Institution's collegiate bodies where it is determined whether the excess is acceptable or not.

Below is the composition of the Banca Afirme portfolio as of June 30, 2022, according to the credit quality of the various counterparties:

Exposure by Credit Quality
 (Emissions and derivatives)

Instrument	Sovereign Risk	Development Banking Risk	Non-Sovereign Risk
Fixed rate	460	696	-
Reviewable Rate Govt. Federal	1,039	-	-
Reviewable Rate IPAB	28,182	-	-
Real Rate	48	249	-
Reviewable Rate Others	-	15,504	1,545
Total	29,729	16,449	1,545

Note: Within the composition of the portfolio at the end of 2Q 2022, 1,039 MDP of the issue XR_BREMSR_251023 is considered, which is a Reportable Monetary Regulation Bond of the Banco de México, with the purpose of regulating liquidity in the money market.

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Non-Sovereign Risk Issuance Rating			
Rating agency			Market Value
Fitch	S&P	Moody's	
AAA (mex)	mxAAA		216
F1+ (mex)	mxA-1+	MX-1	1,304
	mxA-1+		111
Total			1,632

Note: Development Bank issues are not considered within the exposure by rating.

Like the loan portfolio, the VaR and the expected loss are calculated both for financial instruments in the debt market and for derivative operations. For this purpose, default curves and recovery factors published by the rating agencies are used and are the risk factors that are applied to the *CreditRisk +* model referred to above.

Interest rate risk

The Bank's balance sheet is exposed to interest rate movements that affect the relationship of interest charged and interest paid. To measure this effect, the methodology based on the repricing of assets, liabilities and derivatives that are in the Institution's balance sheet under the "*Earnings at Risk*" approach is used, in this methodology the effect of an increase in rates is calculated of interest in the positions, assuming that this effect affects them in the period of time between their repricing date and 1 year. Therefore, all assets and liabilities are grouped into bands in the repricing gap and a movement in interest rates is simulated. It is assumed that there is a parallel movement in interest rates and there is no base or reference curve risk. Liabilities that do not have a specific expiration date are considered differently depending on whether they have a cost or not. If the liabilities have a cost, they are included in band 1 (1 day) of the repricing gap, while if they have no cost, they are in a band greater than 1 year.

In this sense and applying the aforementioned methodology, at the end of June 2022, there is a sensitivity that an increase of 50 basis points in the interest rate (TIIE) would have a loss of 2 million pesos, if symmetry is assumed a reduction of 50 basis points would have the opposite effect.

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Non-Discretionary Risk Management

The Institution has implemented a procedure for the daily report of operational incidents that are registered in a database. Each incident is evaluated at the operating unit level where its owners are responsible for its processes and risk mitigation mechanisms. Any incident that originates an accounting loss constitutes an operational risk event that is recorded in said database, which is controlled by the Comprehensive Risk Management Unit.

Each incident or event of operational risk is classified according to its origin and particular characteristics, each effect is identified against previously established risk factors. Next, a probability of occurrence and a level of economic impact are assigned that is scaled to the type of impact and its importance based on internal statistics that allows generating a risk indicator.

This procedure is an aid in determining the level of risk tolerance. However, the Risk Policies Committee is the body that proposes to the Board the level of tolerance by type of risk for the entire financial year. This tolerance level is segregated by type of non-discretionary risk, that is, there is a tolerance level for operational risk, one for legal risk and another for technological risk, highlighting that image risk, also known as risk Reputational risk is considered an integral element of operational risk. The tolerance level is periodically monitored against events that have led to an accounting loss and are dealt with in the Risk Policies Committee.

The following table shows a summary of the authorized tolerance level and the amount of risk actually materialized as of June 30, 2022.

Tolerance Level Table

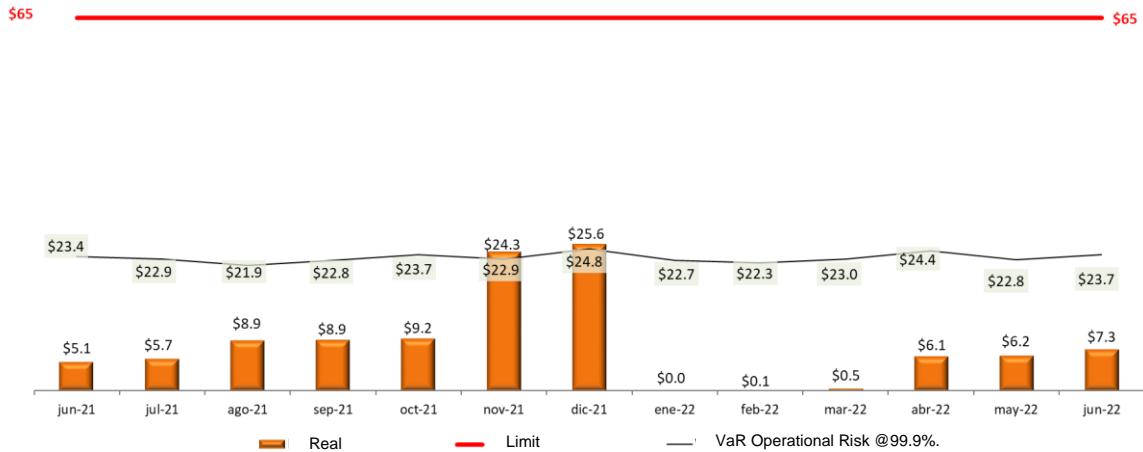
Total Authorized Level In millions	Real In millions
\$65.0	\$7.3

The average monthly amount of the last twelve months amounts to \$2.3 million pesos and incorporates the three types of non-discretionary risk mentioned above.

In order to estimate the losses that the materialization of non-discretionary risks would generate on the business, the institution currently has a VaR model established that is based on the probability of occurrence and degree of impact of historically observed risk events. This VaR is treated monthly in the Risk Policies Committee and is based on statistics collected in a database managed by the Risk Management Unit.

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Operating ("VaR" for its acronym in Spanish) Chart



^c Figures in millions of pesos

The VaR Operational Risk has been estimated at \$23.7 million at a confidence level of 99.9% at the end of Q2 2022. According to the materialized risk events, the real losses stood at \$7.3 million pesos and represents 11.2% of the level authorized by the Council.

Non-Quantifiable Risk Management

Non-quantifiable risks are those that originate from fortuitous events over which the institution has no control, such as hurricanes, earthquakes, floods and other incidents classified as acts of God or force majeure.

On March 11, 2020, the World Health Organization declared the SARS Cov-2 ("COVID-19") outbreak a pandemic given its rapid spread around the world. Governments of different countries are taking increasingly strict measures to help contain this virus. By virtue of the foregoing, on March 23, 2020, the "Agreement by which the General Health Council recognizes the SARS Cov-2 virus epidemic ("COVID- 19") in Mexico, as a serious disease of priority attention and the activities of preparation and response to said epidemic are established".

Afirme has promptly followed up on the events that occurred due to the pandemic and its evolution in the national territory. In this sense, we continue with the health security protocols implemented, among others, by the Federal Government, through the Ministry of Health; as well as rethinking and evaluating the measures and mechanisms necessary to safeguard the integrity and health of our clients, users and staff. As of June 30, the Institution has followed the following actions, among others:

- a) Safety and hygiene protocols and standards have been strengthened, both in buildings and in branches, incorporating specialized suppliers and increasing the frequency of cleaning and disinfection in all areas.
- b) Personnel considered vulnerable have been identified and protected, as well as the social distancing protocols have been continued.
- c) Work schemes were defined within the Institution which combine remote work, verifying that critical processes are adequately addressed.
- d) In the case of the branches, they have been kept open and operating with the proper safety and hygiene measures.

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- e) The protocols and indications of the Federal Government have been followed, as well as the monitoring of covid traffic lights by state, in order, if possible, to opt for a healthy return of personnel to the facilities.

In addition, it is important to note that the institution has coverage of non-quantifiable risks through insurance policies that are reviewed annually and has established a contingency plan called "Disaster Recovery Plan" that provides for mitigating the effects of a force majeure event.

Main indicators of assets at risk

Regarding the evolution of variations in the main indicators of assets at risk, a comparison of assets at risk and capitalization index is presented below:

	Q2 2022*	1Q 2022	Variation%
Assets at Credit Risk	46,737.5	45,377.3	-2.91%
Assets at Market Risk	4,298.2	5,657.1	31.62%
Assets at Operational Risk	8,722.0	8,618.7	-1.18%
Total Assets at Risk	59,757.7	59,653.0	-0.18%
Basic Capital	6,960.5	7,047.2	1.25%
Complementary Capital	2,134.0	2,130.4	-0.17%
Net Capital	9,094.5	9,177.6	0.91%
Capitalization Index	15.2%	15.4%	1.09%

* Information before replicas from Banxico.

Portfolio Rating:

The Bank carries out its portfolio qualification process applying the Methodology established in Chapter V "Credit Portfolio Qualification" of the Provisions issued by the Commission.

In accordance with the Provisions, the Bank uses, for the purposes of rating the commercial portfolio, information related to the quarters ending in the months of March, June, September and December and records preventive reserves in the accounting at the end of each quarter, corresponding, considering the balance of the debt registered on the last day of the aforementioned months.

For the two months after the close of each quarter, the rating corresponding to the credit in question that has been used at the close of the quarter immediately prior to the balance of the debt recorded on the last day of the aforementioned months may be applied. However, when they have an intermediate rating after the end of said quarter, the latter may be applied to the aforementioned balance.

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To comply with article 138 of the Sole Circular, the consumer, housing and commercial loan portfolio is presented below by degree of risk A-1, A-2, B-1, B-2, B-3, C- 1, C-2, D and E:

Risk level	June'2022		March'2022	
	Portfolio	Reserves	Portfolio	Reserves
A-1	38,814	201	38,659	202
A-2	5,041	70	5,082	73
B-1	2,715	64	2,076	53
B-2	1,226	38	1,234	39
B-3	1,169	50	2,099	76
C-1	1,696	149	728	51
C-2	984	107	1,010	111
D	2,718	872	2,239	761
E	1,358	909	1,327	864
Excepted	0	0	0	0
Total	55,719	2,461	54,455	2,230

Amounts in millions of pesos

According to article 129 of the Unique Circular, as of December 31, 2013, the classification of preventive reserves of the loan portfolio is as follows:

PERCENTAGE OF PREVENTIVE RESERVES				
DEGREES OF RISK	COMMERCIAL PORTFOLIO	HOUSING PORTFOLIO	CONSUMER PORTFOLIO	
			Non-Revolving Consumption	Revolving Consumption
A-1	0 to 0.9	0 to 0.50	0 to 2.0	0 to 3.0
A-2	0.901 to 1.5	0.501 to 0.75	2.01 to 3.0	3.01 to 5.0
B-1	1,501 to 2.0	0.751 to 1.0	3.01 to 4.0	5.01 to 6.5
B-2	2.001 to 2.50	1,001 to 1,50	4.01 to 5.0	6.51 to 8.0
B-3	2,501 to 5.0	1,501 to 2.0	5.01 to 6.0	8.01 to 10.0
C-1	5.001 to 10.0	2001 to 5.0	6.01 to 8.0	10.01 to 15.0
C-2	10.001 to 15.5	5.001 to 10.0	8.01 to 15.0	15.01 to 35.0
D	15.501 to 45.0	10.001 to 40.0	15.01 to 35.0	35.01 to 75.0
E	Greater than 45.0	40.001 to 100.0	35.01 to 100.0	Greater than 75.01

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As of January 2022, the NIF C16 standard (IFRS 9) came into force for the calculation of preventive reserves for credit risks according to the Provisions, classifying the credit portfolio into risk stages and calculating the preventive reserves under the expected losses model and full-life reserves according to the following:

- Current portfolio - risk stage 1 and risk stage 2 - Reserve expected loss
 - $Reserves\ Stage\ 1\ o\ 3_i = PI_i^X \times SP_i^X \times EI_i^X$
- Overdue portfolio - risk stage 3 - takes the maximum value between the expected loss Reserve and full life reserve
 - $Reserves\ Stage = Max(Full\ Life\ Reserves_i, PI_i^X \times SP_i^X \times EI_i^X)$

Commercial portfolio

As of December 2013, the Institution is rating the business portfolio and the portfolio in charge of federal government entities and decentralized federal, state and municipal agencies with the methodology established by the C.N.B.V. which was published in the DOF of June 24, 2013 and applying the modifications of the new methodology for rating the commercial portfolio and calculating the preventive reserves published on March 13, 2020.

With the new rating methodology, reserves are determined considering the probability of default, the severity of the loss and the exposure to default, in accordance with the provisions of the Sole Banking Circular and analyzing the quantitative and qualitative factors applying the following rating Annexes:

Portfolio to Companies:

Annex 21.- Rating model for the portfolio in charge of legal entities and individuals with business activity with net sales or annual net income less than 14 million Udis, which considers exclusively quantitative factors, analyzing the following risk factors: payment experience according to information from the credit information society, payment experience with the credit institution.

Annex 22.- Model to qualify the portfolio in charge of legal entities and individuals with business activity with net sales or annual net income greater than 14 million Udis, analyzing the following risk factors as appropriate: a) Quantitative factors: payment experience, according to information from the credit information society, payment experience with the Institution and financial risk, b) Qualitative Factors: country and industry risk, customer dependence, transparency and standards, organizational and shareholder structure.

Portfolio to Financial Institutions:

As of March 2014, the Institution is rating the portfolio in charge of financial entities with the new methodology established by the C.N.B.V. which was published in the DOF of June 24, 2013 and applying the modifications to the qualification methodology published on March 13, 2020:

Annex 20.- Model to qualify the portfolio in charge of financial institutions, analyzing the following risk factors as appropriate: a) Quantitative factors: payment experience, according to information from the credit information society, payment experience with the Institution and financial risk, b) Qualitative factors: business context, organizational structure and management competence.

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Credits to Federative Entities, Municipalities and their Decentralized Organizations:

As of October 2011, the Institution is grading the portfolio of Federal Entities and Municipalities with the new methodology established by the C.N.B.V. applying the new Annex 18 - Qualification and provisioning method applicable to loans held by Federal Entities and Municipalities, which was published in the DOF of October 5, 2011 and applying the modifications to the qualification methodology published on March 13, 2020. With the new rating methodology, reserves are determined by considering the probability of default, the severity of the loss and the exposure to default, in accordance with the provisions of the Single Circular and analyzing the following risk factors: a) Quantitative: payment experience with credit information companies, payment experience with the Institution itself and financial risk, b) Qualitative: financial strength and transparency.

Housing mortgage portfolio

As of March 2011, the Institution is qualifying the housing mortgage portfolio with the new methodology established by the C.N.B.V. and published in the DOF in October and November 2010, which establishes that the reserves will be determined considering the probability of default, the severity of the loss and the exposure to default for each loan, in accordance with the provisions of the Sole Circular, and analyzing the following factors: number of arrears to the rating date, maximum historical delay, willingness to pay, current loan to value, integration of the credit file and the type of currency; Likewise, in the DOF of January 6, 2017 modifications to the rating methodology were published, which were applied as of June 2017, incorporating into the model variables of the borrower on their credit behavior registered in the Credit Information Societies such as months elapsed since the last delay greater than thirty days and applying the modifications on the new rating methodology and precautionary reserves calculation published on March 13th, 2020.

Consumer loans

As of March 2011, the Institution is rating the non-revolving consumer portfolio with the new methodology established by the CNBV and published in the DOF in October and November 2010, which establishes that the reserves will be determined considering the probability of default, the severity of the loss and the exposure to default for each credit, in accordance with the provisions of the Single Circular, and analyzing the following factors according to the type of credit in question: number of arrears to the date of qualification, maximum historical arrears, willingness to pay, percentage representing the balance of the credit, original amount of the credit, arrears index, percentage that the remaining term represents of the total term of the credit, number the number of times the accredited pays the original value of the property, type of credit, and in group credits among other factors, considering the number of arrears to the date of qualification, the willingness to pay, the number of people who make up the group to which the accredited belongs and the average cycles of the group to which the accredited belongs. Likewise, in the DOF of January 6, 2017 modifications to the rating methodology were published, which were applied as of June 2017, incorporating variables of the borrower on their credit behavior registered in the Credit Information Companies into the model. such as months elapsed since the last delay greater than thirty days, amount to be paid to the Institution, amount to be paid reported in the credit information companies, balance reported in the credit information companies, debt levels, monthly income of the borrower, seniority of the Borrower in the Institution, seniority of the Borrower with Institutions.

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In accordance with the modifications made by the Commission to the Provisions published in the DOF on August 12, 2009, the Bank rates the revolving consumer portfolio related to credit card operations considering the following factors: balance to be paid, payment made, credit limit, minimum payment required, default of payment; Likewise, in the DOF of December 16, 2015 modifications to the rating methodology were published, which were applied as of April 2016, incorporating variables of the borrower on their credit behavior registered in the Credit Information Societies into the model. such as the amount to be paid to the Institution, the amount to be paid reported in the credit information companies, months that have elapsed since the last delay of more than one day from the borrower in his credit commitments, as well as the length of time of the borrower at the Institution. The amount of the credit card reserves will be determined considering the probability of default, the severity of the loss and the exposure to default, in accordance with the provisions of the Provisions.

Likewise, the modifications of the new qualification methodology and calculation of preventive reserves published on March 13, 2020 were applied.

The following is the portfolio rating table of the Bank's total portfolio with figures as of June 30, 2022:

DEGREES OF RISK	COMMERCIAL PORTFOLIO		HOUSING PORTFOLIO		Non-Revolving Consumer Portfolio		Revolving Consumer Portfolio: Credit Card		TOTAL PORTFOLIO	
	Portfolio	Reserves	Portfolio	Reserves	Portfolio	Reserves	Portfolio	Reserves	Portfolio	Reserves
A-1	25,752	124	8,189	12	4,530	39	342	26	38,814	201
A-2	3,773	42	607	4	448	11	213	12	5,041	70
B-1	1,510	25	199	2	901	30	105	7	2,715	64
B-2	434	9	252	3	498	22	42	4	1,226	38
B-3	773	29	85	2	274	15	37	4	1,169	50
C-1	1,206	115	131	4	302	21	58	8	1,696	149
C-2	68	8	509	42	333	37	74	19	984	107
D	1,897	669	489	105	263	57	69	42	2,718	872
E	725	516	191	99	415	270	28	25	1,358	909
Excepted	0	0	0	0	0	0	0	0	0	0
Total qualified portfolio	36,138	1,536	10,652	273	7,962	504	968	148	55,719	2,461

Other concepts:

Interest cobrados for anticipantín	-137	0	0	0	0	0	0	0	-137	0
Qualified Contingent Credits Adjustment (Letters of Credit and Guarantees Granted)	-1,366	0	0	0	0	0	0	0	-1,366	0
Total	34,635	1,536	10,652	273	7,962	504	968	148	54,217	2,461

Qualified Credit Portfolio without Contingencies	34,772	1,536	10,652	273	7,962	504	968	148	54,353	2,461
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Additional Reserves										50
Total Reserves										2,510

Amounts in millions of pesos

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The following table presents the movement of the 2nd. quarter of fiscal year 2022 of the estimate of preventive reserves of the Bank's portfolio:

Portfolio Segment	Movement of reserves					
	Balance at the beginning of the quarter (Balance Reserve)	Creation of reservations	Applications by: Punishments and Removals	Other Movements Recovery/Special Creations	Variation by exchange rate	Balance at the end of the quarter (Balance Reserve)
COMMERCIAL PORTFOLIO	1,346	191	0	0	0	1,536
HOUSING PORTFOLIO	258	14	0	0	0	273
Non-Revolving Consumer Portfolio	477	151	-124	0	0	504
Revolving Consumer Portfolio: Credit Card	149	29	-30	0	0	148
Additional Reserves	43	7	0	0	0	50
Total closing of the quarter	2,273	392	-154	0	0	2,510

Amounts in millions of pesos

The estimate of preventive reserves of the commercial portfolio by economic sector as of March 31, 2022 and June 30, 2022 is presented below:

Economic Sector	Book Balance Mar2022	Reserve Balance Jun2022
Mining and Oil	463	477
Commerce	385	382
Services	196	210
Manufacturing	77	76
Construction	74	81
Others	152	311
Total	1,346	1,536

Amounts in millions of pesos

The following table presents a comparison as of June 30, 2022 of credit risk exposures, reported credit reserves and those derived from gross exposures, without considering the effects of credit risk hedging techniques, broken down by the main types of credit portfolio:

Concept:	Portfolio	Exposure to Default	Reserves	Bookings *	Gross Exposures
Portfolio to Companies with sales of less than 14 million UDIs	9,211	9,211	588	658	8,553
Portfolio to Companies with sales greater than 14 million UDIs	23,320	23,320	935	1,430	21,891
Portfolio to Government Sector Entities	1,710	1,710	11	20	1,690
Portfolio to Financial Institutions	530	530	2	2	528
Total Commercial Credit Portfolio *	34,772	34,772	1,536	2,111	32,661
HOUSING PORTFOLIO	10,652	10,652	273	273	10,379
Non-Revolving Consumer Portfolio: Auto	7,962	7,962	504	504	7,458
Revolving Consumer Portfolio: Credit Card	968	1,909	148	148	1,761
Total Loan Portfolio	54,353	55,294	2,461	3,035	52,259

* Reserve without considering Risk mitigants
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The following is the geographical distribution of credit exposures broken down into the main federal entities, with figures as of June 30, 2022:

FEDERAL ENTITY	COMMERCIAL PORTFOLIO	HOUSING PORTFOLIO	NON-REVOLVING CONSUMER PORTFOLIO	REVOLVING CONSUMER PORTFOLIO: CREDIT CARD	TOTAL LOAN PORTFOLIO
Nuevo León	24,924	3,479	2,450	484	31,337
Mexico City	2,318	1,328	583	59	4,288
Coahuila	2,354	580	935	83	3,951
Jalisco	1,132	757	376	32	2,298
Michoacan	668	356	439	38	1,501
Others	3,376	4,152	3,179	272	10,979
Total	34,772	10,652	7,962	968	54,353

Amounts in millions of pesos

The following table shows the distribution of the commercial portfolio's exposures by economic sectors, with figures as of June 30, 2022:

Economic Sector	COMMERCIAL PORTFOLIO
COMMERCE	10,530
SERVICES	6,565
ELECTRICITY AND WATER	5,053
CONSTRUCTION	3,201
REAL ESTATE SERVICES AND RENT	2,292
GOVERNMENT ENTITIES	1,710
OTHERS	5,420
Total	34,772

Amounts in millions of pesos

The following is the distribution of credit exposures by remaining terms, with figures as of June 30, 2022:

DEADLINE TO EXPIRE	COMMERCIAL PORTFOLIO	HOUSING PORTFOLIO	NON-REVOLVING CONSUMER PORTFOLIO	REVOLVING CONSUMER PORTFOLIO: CREDIT CARD	TOTAL LOAN PORTFOLIO
Credits with terms already overdue	505	0	41	0	546
1 to 184 days	10,395	2	993	0	11,390
185 to 366 days	1,208	11	278	0	1,497
From 367 to 731 days	912	16	966	0	1,894
732 to 1,096 days	2,192	30	1,777	0	3,999
1,097 to 1,461 days	2,888	60	1,530	0	4,478
1,462 to 1,827 days	2,299	103	2,331	0	4,733
More than 1,827 days	14,373	10,430	45	968	25,816
Total	34,772	10,652	7,962	968	54,353

Amounts in millions of pesos

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The following table shows the age of the overdue portfolio of the Bank's total portfolio with figures as of June 30, 2022:

RANGE OF DAYS PAST DUE	COMMERCIAL PORTFOLIO	HOUSING PORTFOLIO	NON-REVOLVING CONSUMER PORTFOLIO	REVOLVING CONSUMER PORTFOLIO: CREDIT CARD	TOTAL
Default from 1 to 180 days	678	211	202	19	1,110
Default from 181 to 365 days	93	126	37	0	255
Delay greater than 365 days	565	342	1	0	908
Total Overdue Portfolio	1,336	679	239	19	2,273

Amounts in millions of pesos

Next, it presents the Bank's commercial portfolio classified into Stage 1, Stage 2 and Stage 3 with figures as of June 30, 2022, classified by risk grades, federal entities and economic sectors:

Cartera Comercial (Etapa 1, Etapa 2 y Etapa 3) por grado de riesgo:

Nivel de Riesgo	Cartera Comercial Vigente						Cartera Comercial Vencida		Cartera Total	
	Cartera Comercial Etapa 1		Cartera Comercial Etapa 2		Total Cartera Comercial Vigente		Cartera Comercial Etapa 3			
	Cartera	Reservas	Cartera	Reservas	Cartera	Reservas	Cartera	Reservas		
A-1	24,417	124	0	0	24,417	124	0	0	24,417	124
A-2	3,758	42	0	0	3,758	42	0	0	3,758	42
B-1	1,494	25	0	0	1,494	25	0	0	1,494	25
B-2	434	9	0	0	434	9	0	0	434	9
B-3	773	29	0	0	773	29	0	0	773	29
C-1	712	66	14	1	727	67	479	48	1,206	115
C-2	67	8	0	0	67	8	1	0	68	8
D	1,674	584	62	18	1,735	601	162	67	1,897	669
E	9	5	21	11	30	16	695	500	725	516
Exceptuada	0	0	0	0	0	0	0	0	0	0
Total	33,339	892	97	29	33,436	921	1,336	615	34,772	1,536

Cifras en millones de pesos

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Cartera Comercial (Etapa 1, Etapa 2 y Etapa 3) por Entidad Federativa:

Entidad Federativa	Cartera Comercial Vigente						Cartera Comercial Vencida		Cartera Total	
	Cartera Comercial Etapa 1		Cartera Comercial Etapa 2		Total Cartera Comercial Vigente		Cartera Comercial Etapa 3			
	Cartera	Reservas	Cartera	Reservas	Cartera	Reservas	Cartera	Reservas	Cartera	Reservas
Aguascalientes	115	1	0	0	115	1	63	29	178	30
Baja California	484	3	0	0	484	3	3	2	487	5
Chihuahua	151	1	0	0	151	1	16	11	167	12
Ciudad de México	2,032	15	40	12	2,072	27	246	163	2,318	190
Coahuila	2,336	23	0	0	2,336	23	18	13	2,354	36
Colima	163	2	0	0	163	2	5	4	168	6
Durango	23	1	0	0	23	1	3	2	25	3
Estado de México	349	7	5	1	354	8	47	36	401	44
Guanajuato	338	2	1	0	339	2	5	4	344	5
Guerrero	144	1	3	1	147	2	9	7	156	9
Jalisco	1,021	9	1	1	1,022	9	110	75	1,132	85
Michoacán	658	4	0	0	658	4	9	7	668	11
Morelos	17	0	0	0	17	0	7	5	24	5
Nuevo León	24,174	801	42	12	24,216	812	708	197	24,924	1,009
Puebla	125	2	3	1	128	4	8	5	137	9
Querétaro	156	3	0	0	156	3	16	13	172	16
Quintana Roo	28	1	0	0	28	1	2	2	30	2
San Luis Potosí	134	3	0	0	134	3	3	2	137	5
Sinaloa	166	6	1	0	167	7	10	4	176	11
Sonora	74	1	0	0	74	1	4	2	77	4
Tamaulipas	357	5	1	0	358	5	45	33	403	38
Yucatán	293	1	0	0	293	1	0	0	293	1
Total	33,339	892	97	29	33,436	921	1,336	615	34,772	1,536

Cifras en millones de pesos

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Cartera Comercial (Etapa 1, Etapa 2 y Etapa 3) por Sector Económico:

Sectores Económicos	Cartera Comercial Vigente						Cartera Comercial Vencida		Cartera Total	
	Cartera Comercial Etapa 1		Cartera Comercial Etapa 2		Total Cartera Comercial Vigente		Cartera Comercial Etapa 3			
	Cartera	Reservas	Cartera	Reservas	Cartera	Reservas	Cartera	Reservas		
Agricultura	252	2	12	6	263	8	13	8	276	16
Comercio	10,154	116	15	6	10,169	121	361	261	10,530	382
Construcción	3,095	28	40	12	3,135	40	66	41	3,201	81
Electricidad y Agua	4,572	149	1	0	4,572	149	480	48	5,053	197
Entidades Financieras	530	2	0	0	530	2	0	0	530	2
Entidades Gubernamentales	1,710	11	0	0	1,710	11	0	0	1,710	11
Manufacturera	1,925	18	5	1	1,930	19	85	57	2,015	76
Minería y Petróleo	1,447	477	0	0	1,447	477	0	0	1,447	477
Servicios	6,324	66	19	4	6,343	69	222	140	6,565	210
Servicios Inmobiliarios y Alquiler	2,269	18	0	0	2,269	18	23	14	2,292	32
Transportes y Comunicaciones	1,061	6	5	0	1,066	6	86	47	1,152	53
Total	33,339	892	97	29	33,436	921	1,336	615	34,772	1,536

Cifras en millones de pesos

The following table presents the movement of the 2nd. quarter of the financial year 2022 of the preventive reserves of the commercial portfolio of Stage 3 of the Bank:

Concept:	Jun'2022
Balance at the beginning of the quarter	\$508
Creation of reservations (current or previous period)	107
Applications by: Punishments and Removals	0
Balance at the end of the quarter	\$615
Recoveries recorded in the quarter of written-off loans	-13

Amounts in millions of pesos

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Risk mitigation techniques

In general terms, Credit Risk is mitigated through the use of guarantees. The guarantee is a security that is offered with respect to an economic loss, it is a reinforcement measure that is added to a credit operation in order to mitigate the loss due to non-compliance with the payment obligation. The guarantee is an element to mitigate the severity of the operation in the event of default. Its purpose is to reduce the final loss in operations.

The guarantees aimed at ensuring the fulfillment of the payment of the credits granted to its borrowers can be real and/or personal:

- **Real Guarantees.-** They are those that are constituted on property (movable or immovable) or rights, concrete and determined. They are rights that assure the creditor the fulfillment of the main obligation through the special bond of a good. As a consequence of this special link, in the event of a breach of the guaranteed obligation, the creditor can realize the economic value of the asset through a regulated procedure and be collected with the amount obtained, the preference in the collection in this way being opposable over the rest of creditors.
- **Personal guarantees.-** These confer on the creditor a right of a personal nature or a power that is directed to the guarantor's own assets. The Personal Guarantee is the one that contributes or is derived from a natural or legal person, by virtue of the personal credit that it inspires or deserves.

Real Guarantees:

- The real guarantee is the one based on tangible assets, which the subject of the Credit grants to respond for the obligation contracted with the Credit.
- The collateral that supports a credit operation should be analyzed with respect to the following:
 - a. Degree of cash convertibility
 - b. Tax aspects that may affect your award
 - c. Considering the nature of the asset given as collateral, an Appraisal must be obtained, which should preferably be prepared by a Valuation Expert authorized by the Institution, or a different Appraisal may be accepted in accordance with the established procedures; Likewise, in the case of guarantees located in places where there are no registered Afirme Grupo Financiero experts, the Appraisal prepared by third parties may be used, which could be validated by the Internal Appraisal Area if deemed necessary.

Main Guarantees accepted by the Institution:

Real Guarantees:

- **Mortgage.-** It is the one that is constituted on goods that are not delivered to the creditor and that entitles the latter, in the event that the guaranteed obligation is breached, to be paid the debt with the value of the goods object of the guarantee taking in consideration of the place and degree of preference in its assessment.

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- **Pledge.-** The Pledge Guarantee of movable property must be established in accordance with the provisions of article 334 of the General Law of Titles and Credit Operations. The transmission of possession depends on the nature of the object good. The Credit Pledge may be authorized in books, which must be contained in the Credit Agreement and it must be stated that the Credits granted in Pledge are listed in notes or lists duly signed by the representatives of the borrower or the third guarantor.
- **Fiduciary.-** The patrimony of the Administration and Payment and Guarantee Trusts can be cash, real estate, furniture, accounts receivable, credit rights, etc.
- **Guarantee with Irrevocable Mandate.-** Liability in charge of the Institution (except at sight) or of any Credit Institution or Holding Companies, formalized through a trust, which are granted to support a Credit operation or, liability in charge of the Institution (except at sight) with Irrevocable Mandate on money of the Institution.
- **Insurance.-** These are contracts that are entered into with the Insurance Companies, which by paying a premium, are obliged to compensate for damage or to pay a sum of money in the event that the loss foreseen in the contract occurs.
- **Letter of Guarantee.-** It is the commitment that a company based abroad acquires to cover the Institution's capital, interests and expenses related to Credits granted to a subsidiary or subsidiary of the former, located in national territory, in the event that it incurs in the breach of its obligations. The foregoing when permitted by the Legal Provisions, requesting a review of said Letter of Guarantee from the Legal Area.
- **Participations in Federal Revenues.-** These are resources periodically received by the state and municipal governments from the national collection of federal revenues.

Personal Guarantees:

- **Guarantee.-** It is a unilateral declaration of the will of a natural or legal person to guarantee by signing the total or partial payment of a Credit title.
- **Solidarity Debt and / or Solidarity Bond.-** It is a document in which a person jointly and severally undertakes to guarantee the debts that the borrower contracts with the Institution, which is formalized through a contract.
- **Bond.-** It is a contract by which a person agrees with the creditor to pay for the debtor if he does not do so. It is an accessory contract in which a creditor, a principal debtor and a guarantor intervene through a contractual relationship. It is a contract by virtue of which a surety institution undertakes to guarantee compliance with obligations with an economic content, contracted by a natural or legal person before another private or public natural or legal person, in the event that that person does not comply.

Regarding the concentration of guarantees, the Institution's portfolio is guaranteed mainly by trusts, mortgages, guarantees granted by the Development Bank and cash guarantees.

In accordance with the rules of Annexes 24 and 25 of the Sole Banking Circular, Afirme considers real and personal guarantees to estimate the Loss Severity used in the standard qualification model of preventive reserves for credit risks reported in the Balance Sheet of the institution.

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The following table shows the distribution of the aforementioned guarantees that apply to the commercial portfolio:

Guarantee Type	% Guarantee
Financial Real Guarantees	
- Liquid	1.70%
- BMV Actions	2.61%
Non-Financial Real Guarantees	
- Trusts	57.67%
Mortgages	25.08%
- Garment: Certificates	4.38%
- Other	1.14%
Personal Guarantees	
- Insurers and Others	3.10%
Development Bank	4.32%
Total	100.00%

The following table shows the total exposure amount that is covered by financial collateral, non-financial collateral, and admissible personal collateral:

Commercial Portfolio:

Guarantee Type	Indoor exhibition
Financial Real Guarantees	814
Non-Financial Real Guarantees	16,685
Guarantees granted by the Development Bank	816
Personal and Other Guarantees	586

Amounts in millions of pesos