

Administration Report

Banca Afirme

December 2021

Hoy creamos

Hoy creamos

EMPIEZA A IMAGINARLO

AFIRME
El Banco de Hoy

Document index

OPERATING RESULTS.	2
FINANCIAL MARGIN ANALYSIS	2
YIELDS GENERATED BY THE CREDIT PORTFOLIO	2
INCOME FROM INVESTMENTS IN SECURITIES REPURCHASES OPERATIONS AND LIQUID ASSETS	3
PRIZES AND INTERESTS DERIVED FROM THE COLLECTION	3
FINANCIAL MARGIN RESULT	4
NON-FINANCIAL INCOME	5
COMMISSIONS AND FEES DERIVED FROM THE PROVISION OF SERVICES	5
INTERMEDIATION	5
OTHER INCOME (EXPENSES) FROM THE OPERATION	6
ADMINISTRATION EXPENSES	7
INCURRED AND DEFERRED TAXES	8
FINANCIAL SITUATION, LIQUIDITY AND CAPITAL RESOURCES	8
EVOLUTION OF THE BALANCE SHEET	9
TREASURY POLICIES	10
INTERNAL CONTROL	10
RISKS AND REMUNERATION COMMITTEE	11
OTHER RELEVANT EVENTS	15
CERTIFICATION	16

MANAGEMENT COMMENTS AND ANALYSIS ON THE RESULTS OF OPERATION AND FINANCIAL SITUATION OF BANCA AFIRME.

OPERATING RESULTS.

Comparative analysis of the period ended December 31, 2021, compared to the period ended December 31, 2020.

At year-end 2021, Banca Afirme's income totaled 777.4 million pesos, 141.8% higher than the previous year, this result is mainly due to non-recurring income recorded in other operating income (expenses), on the other hand, the decrease in precautionary reserves and the increase in the financial margin also contributed to this increase.

FINANCIAL MARGIN ANALYSIS

YIELDS GENERATED BY THE CREDIT PORTFOLIO

At the end of the third quarter of 2021, the interest generated by the loan portfolio amounted to 5,620.6 million pesos, a decrease of 4.1% compared to the same period of the previous year. The current portfolio shows an increase of 5.2%, mainly the corporate portfolio which shows a growth of 1,685.5 million pesos (5.9%) on an annual basis, the housing portfolio shows an increase of 1,233.0 million pesos (15.6%), the government portfolio decreases 556.7 million pesos (-19.4%) and, on the other hand, the consumer portfolio shows an increase of 204.2 million pesos (2.6%). 2mdp (2.6%), the behavior in the TIIE reference interest rates that goes from 4.48% to 5.44% from December 2020 to December 2021, although the reference rate increases the average for the year from 5.48% in 2020 to 4.40% in 2021, which has a negative impact on the interest collected.

Credit Portfolio Interests	2019	2020	2021	Variation	% Var.
Business Credits	2,821.0	2,903.6	2,837.7	(65.9)	-2.3%
Consumer loans	1,858.4	1,933.7	1,882.3	(51.4)	-2.7%
Home loans	770.3	833.6	745.0	(88.7)	-10.6%
Credits for Governmental Entities	229.0	142.5	117.7	(24.9)	-17.4%
Credits for Financial Entities	60.5	46.5	37.9	(8.6)	18.5%
Totals	5,739.1	5,860.0	5,620.6	(239.4)	-4.1%

During the aforementioned period, commissions for credit operations show an annual increase of 20.0%, impacted by some clients who paid early.

Commissions received for Credit Operations	2019	2020	2021	Variation	% Var.
Business Credits	58.0	56.3	69.6	13.3	23.6%
Consumer loans	104.4	99.1	118.3	19.2	19.4%
Home loans	8.8	18.7	19.9	1.2	6.6%
Credits for Governmental Entities	0.8	0.6	1.8	1.1	78.7%
Totals	172.0	174.7	209.7	34.9	20.0

INCOME FROM INVESTMENTS IN SECURITIES, REPURCHASE OPERATIONS AND AVAILABILITIES.

In accordance with Banca Afirme's strategy since 2020, positions in securities were increased in search of higher yields and to increase an anti-cyclical business. The above was maintained during 2020 and 2021.

We were able to significantly increase interest income, thanks mainly to the extraordinary charges on inflation and the increase in reference rates in the last semester.

As a relevant strategy in the Institution, the available liquidity has been increased to be able to respond to possible events related to the current crisis and its recovery, this strategy generates higher income from cash availability despite the fact that the average rates have been lower than last year. The latter is also reflected in the interest received for repurchase agreements, since these resources, on average, were invested at a lower rate than in 2020.

Premium, interests and premium derivatives from securities and investments	2019	2020	2021	Variation	% Var.
Not restricted titles to negotiate	5,422.8	5,089.8	6,208.2	1,118.5	22.0%
Restricted Liquid Assets	216.8	185.6	203.0	17.4	9.4%
Restricted and Repurchase Titles					

Interests Charged and premiums in favor for repurchase operations	3,099.7	2,864.6	2,322.0	(542.6)	-18.9%
Income from covered operations	171.6	86.3	62.7	(23.6)	-27.4%
Totals	8,910.9	8,226.3	8,795.9	569.6	6.9%

PRIZES AND INTERESTS DERIVED FROM THE COLLECTION

At the end of 2021, interest expenses show a marginal decrease of 1.9%, these decreased, despite increasing their amount, due to the drop in the average reference interest rates during the year (5.48% in 2020 vs. 4.40% in 2021). It is expected that in the near future interest will grow due to the current increase in rates

Expenses from interests	2019	2020	2021	Variación	% Var.
Immediate enforceability deposits	1,286.2	772.7	661.3	(111.4)	-14.4%
Fixed term deposits	1,622.9	1,059.5	1,016.2	(43.3)	-4.1%
Interbank and other businesses loans	359.2	318.7	340.3	21.7	6.8%
Interests for subordinated liabilities	237.0	223.2	214.6	(8.6)	-3.9%
Bursatile debt	310.2	195.1	138.3	(56.8)	-29.1%
Interests and premiums from repurchase	7,135.6	6,893.3	6,876.3	(17.0)	-0.2%
Expenses from covered operations	69.4	145.1	180.2	35.1	24.2%
Interest from global accounts of funds raised	2.5	4.4	5.2	0.8	17.4%
Other	114.9	103.9	97.9	(6.0)	-5.8%
	11,137.9	9,715.8	9,530.2	(185.7)	-1.9%

FINANCIAL MARGIN RESULT

In the comparison of the financial margin, we achieved that the interest income will increase, and the interest paid will decrease, thanks to being able to fix our deposit costs, despite the crisis, and to charge fixed or inflation-linked interest. Thus, improving the financial margin and profitability of the Institution.

FINANCIAL MARGIN	2019	2020	2021	Variation	% Var.
Total of interests charged	14,822.0	14,261.0	14,626.2	365.2	2.6%
Total of interests paid	11,137.9	9,715.8	9,530.2	-185.7	-1.9%
Financial Margin	3,684.1	4,545.2	5,096.0	550.8	12.1%

NON-FINANCIAL INCOME

COMMISSIONS AND FEES DERIVED FROM THE PROVISION OF SERVICES

During fiscal year 2021 there is an increase of 29.4% in commissions collected, this variation is mainly due to commissions collected in electronic banking, which shows an increase of 55.1% as a result of the increase in these services, highlighting operations at ATMs and POS terminals. . the item of other commissions shows an increase of 61.2% as a result of income related to remittances and correspondents which had a significant increase during 2021, the item of fiduciary activities decreases 63.5% due to extraordinary operations during the previous year, Tandas Bienestar decreases a 92.1% derived from the end of said program.

Commissions and Fees Charged	2019	2020	2021	Variation	% Var.
Credit operations	42.9	47.2	45.4	(1.7)	3.7%
Funds transfer	16.4	18.0	25.9	7.8	43.5%
Trust Companies Activities	401.5	287.8	105.0	(182.8)	-63.5%
Appraisals	11.7	6.6	10.0	3.4	51.5%
Account Management	36.7	47.2	51.1	3.9	8.2%
Electronic Banking	1,136.0	1,105.1	1,714.4	609.3	55.1%
Guarantee	0.4	0.3	0.8	0.4	127.2%
Right to severance pay	74.7	66.2	78.6	12.4	18.8%
Insurance	258.7	191.2	240.2	49.0	25.6%
Financial Advisory	13.1	0.5	0.3	(0.2)	-43.5%
Other commissions and duties	163.2	225.7	364.0	138.2	61.2%
Social Wealth Batches	41.2	43.1	3.4	(39.7)	-92.1%
Totals	2,196.5	2,038.9	2,639.0	600.1	29.4%

RESULT BY INTERMEDIATION

The 2021 trading result is significantly offset by the valuation result of our securities at market. The brokerage result was 34.3% lower than the previous year due to the devaluation of securities that had been revalued in

2020, despite this, the increase in the margin largely compensates for this impact, resulting in a very profitable year for the securities valued.

The Institution continues to actively participate in the financial markets, including the Money Market and Foreign Exchange Operations, applying investment and operation strategies under the authorized risk limits.

Result by intermediation	2019	2020	2021	Variation	% Var.
Valuation Results to Fair Market Value and Reduction of Titles valued at cost	(128.6)	29.7	113.1	83.4	281.2%
Titles to negotiate	(128.5)	29.7	113.1	83.4	281.2%
Derivative instruments with coverage purposes	-0.1	0.0	0.0	(0.0)	0.0%
Results from Sales and Purchase of Securities and Foreign Exchange	386.8	117.5	-16.4	(134.0)	114.0%
Titles to negotiate	282.8	(19.8)	(156.0)	(136.2)	689.2%
Results for Sales and Purchase of Currency	104.0	137.3	139.5	2.3	1.6%
Totals	258.2	147.2	96.6	(50.5)	-34.3%

OTHER INCOME (EXPENSES) FROM THE OPERATION

For the end of the 2021 fiscal year, the item of other income (expenses) of the operation presents an annual increase of 420.6 million pesos, which represents 191.7%, mainly explained by the item Release of reserves, which increases 416.9 million pesos (derived from the scenarios adverse economic conditions generated by the pandemic related to the Sars-CoV2 virus, since July 2020 the Company began to constitute, with the approval of the CNBV, additional global preventive reserves aimed at facing a possible deterioration of the derivative portfolio. of the crisis generated by the aforementioned pandemic. Due to the fact that the Company's portfolio has not been significantly impacted by the crisis derived from the pandemic, and the economic recovery indicators show encouraging signs of recovery, the Company carried out the release of the total balance of the Additional Preventive Reserves for a total amount of 417.0 million pesos, which generates the main variation of this item”), on the other hand, the item of other + funds decreases 107.8 million pesos mainly due to non-recurring income generated during 2020 (VISA incentive and portfolio sale) , recoveries increased 68.2% derived from better management in this area.

Other Income (Expenses) of the Net Operation	2019	2020	2021	Variation	% Var.
Recoveries	99.0	69.8	117.3	47.6	68.2%
Debugging accounts payable	22.0	3.7	0.7	3.0	-80.6%
Result from operating lease	8.0	5.9	4.5	(1.5)	-24.7%
Collection of written-off credits	86.0	96.6	119.9	23.3	24.1%
Advisory	0.0	0.0	0.0	0.0	0.0%
Release of reserves	0.0	1.4	418.3	416.9	29,989.7%
Release of reserves from other debts	4.0	33.4	39.8	6.4	19.2%
Sale of furniture and real estate	10.0	9.1	4.5	(4.7)	-50.9%
Bond from the use of Debit and Credit Cards	0.0	0.0	8.7	8.7	0.0%
Other + funds	30.0	171.2	63.5	(107.8)	-62.9%
Loss on portfolio sale	(4.0)	(31.4)	(2.7)	28.7	-91.4%
Customer bonuses	(29.0)	(52.9)	(59.0)	(6.0)	11.4%
Miscellaneous bankruptcies	(36.0)	13.5	(26.0)	12.5	92.7%
Reserve for other overdue debts	(67.0)	(56.5)	31.2	25.3	-44.8%
Reserve foreclosed assets	3.0	(16.1)	15.8%	0.2	-1.5%
Others	(7.3)	(1.4)	(2.5)	(1.1)	80.8%
Totals	112.7	219.4	640.0	420.6	191.7%

ADMINISTRATION EXPENSES

At the end of the 2021 financial year, Administration expenses presented a variation of 13.3%, on the one hand, salaries and benefits increased by 297.5 million pesos, that is, 24.0%, this was mainly due to the performance of the financial desk, the item of other administrative expenses increased 25.7% as a result of the increase in electronic banking operations, maintenance, surveillance and other minor expenses, fees decreased 16.3% as a result of a lower demand for these professional services (mainly legal fees services, paperwork, etc.) , depreciation increased by 150.0 million pesos, 40.2% mainly due to the deterioration of intangibles for 71.2 million pesos, on the other hand, computer equipment as a result of the implementation of various projects.

Administrative Expenses	2019	2020	2021	Variación	% Var.
Salaries and Claims	1,274.9	1,237.0	1,534.5	297.5	24.0%
Professional Fees	593.9	647.0	541.8	(105.3)	-16.3%
Leases	313.3	323.0	364.0	41.0	12.7%
Marketing	85.7	91.5	150.5	59.0	64.4%
Other administrative and operative expenses	833.2	993.1	1,247.1	254.1	25.6%
Multiple Taxes	194.8	210.3	238.3	28.1	13.3%
Depreciation and Amortization	328.4	373.0	523.0	150.0	40.2%
Nondeductible concepts for ISR	13.9	7.7	5.3	(2.4)	-30.8%
IPAB Contribution	227.9	232.3	257.1	24.9	10.7%
Caused PTU	50.3	63.3	68.7	5.5	8.6%
Total	3,916.3	4,178.1	4,733.4	555.3	13.3%

INCURRED AND DEFERRED TAXES

Tax on Profit	2019	2020	2021	Variation	% Var.
Caused ISR	(192.0)	203.9	(202.4)	(406.25)	-199.3%
Differed ISR	63.5	(104.2)	(17.8)	86.42	82.9%
Totals	(128.4)	99.6	(220.2)	(319.8)	-321.0%

At the end of fiscal year 2021, Banca Afirme files its tax returns individually, and to date it has no outstanding tax credits or debts.

FINANCIAL SITUATION, LIQUIDITY AND CAPITAL RESOURCES

The Bank's internal sources of liquidity are made up of the issuance of its own paper, traditional deposits, and external sources from credit lines granted by financial institutions and development banks.

Indebtedness level at the end of the 2021 financial year

The total liabilities of Banca Afirme as of December 31, 2020, and 2021, have been 164,882.7 million pesos and 170,476.7 million pesos, respectively. The following table shows the total liabilities of Banca Afirme corresponding to these years:

Total Liability	2019	2020	2021	Var	%
Traditional Catchment	51,286.8	57,404.7	62,405.4	11,118.6	21.7%
Credit securities issued	754.4	416.4	1,063.5	309.2	41.0%
Interbank Credits and Other Creditors	3,680.8	6,446.6	6,936.4	3,255.6	88.5%
Businesses Repurchase	46,482.0	92,574.6	94,957.6	48,475.5	104.3%
Other payable accounts	3,503.6	4,725.3	2,261.4	(1,242.2)	-35.5%
Differed Credits	2.0	56.4	61.6	59.6	2908.8%
Other liabilities	2,230.4	3,258.9	2,790.7	560.3	25.1%
Total Liability	107,940.1	164,882.7	170,476.7	62,536.6	57.9%

EVOLUTION OF THE BALANCE SHEET

The total assets of Banca Afirme show an increase of 3.8% with respect to the previous year, mainly due to the increase in the balance of trading securities, which increased by 6.3% as a result of a greater operation, for its part, the current loan portfolio shows a growth of 5.2% mainly in the Commercial and Housing portfolio explained above.

Deposits increased their balances, mainly term deposits, which increased by 18.0%, and demand deposits increased by 2.5%. On the other hand, the balance in issued credit instruments increased by 648 million pesos, reaching an amount of 1,064 million pesos.

RELEVANT INDICATORS	2018	2019	2020	2021
NPL ratio (past due portfolio/total portfolio)	2.52%	3.42%	3.15%	3.35%
Overdue portfolio coverage (preventive estimate/past due portfolio)	1.35	1.02	1.36	1.31
Operating efficiency (administration and promotion expenses/average total assets)	2.59%	3.40%	2.93%	2.71%
ROE (return on equity)	9.30%	6.43%	5.37%	1.60%
ROA (return on assets)	0.33%	0.30%	0.23%	0.45%
Liquidity Ratio (liquid assets/liquid liabilities)	0.89	0.55	0.85	0.91
MIN (financial margin adjusted for credit risks/productive assets)	1.57%	2.45%	2.28%	2.09%

Credit Capitalization Index	17.83%	16.87%	18.32%	20.59%
Total Capitalization Ratio	13.55%	13.21%	14.06%	15.33%
Basic Capital Index	10.99%	10.86%	10.51%	11.95%
Assets subject to credit, market, and operational risk				
of credit	35,661	40,005	44,168	42,610
market	5,757	3,747	5,628	6,066
operating	5,494	7,322	7,761	8,411
Total	46,912	51,074	57,861	57,087

TREASURY POLICIES

The Treasury is governed by internal policies in accordance with the regulations issued by various authorities, as well as prudential risk levels defined by internal collegiate bodies, among others, regarding the following:

- Assets and Liabilities operations.
- Accounting record of transactions.
- Liquidity ratios.
- Capacity of payment systems; and
- Market, liquidity, and credit risks.

The main objective of the Treasury is to level the funding requirements or surpluses between the different business units to maximize profitability, taking care of the adequate management of the risks to which it is affected, in accordance with the official regulations in force.

INTERNAL CONTROL

Banca Afirme is subject to an Internal Control System in which its objectives, policies and guidelines are set and approved by the Board of Directors, through a common and homogeneous methodology that is in accordance with the General Provisions Applicable to Credit Institutions in Mexico ("CUB" for its acronym in Spanish) instructed by the National Banking and Securities Commission ("Banking Commission").

The scope of the Internal Control System establishes the implementation of operating mechanisms, according to the strategies and purposes of the entity, allowing to provide reasonable security for its management processes, as well as for its registration procedures, data automation, and administration of risks.

The different functions and responsibilities between its corporate bodies, administrative units and its staff are focused on ensuring efficiency and effectiveness in carrying out activities and allow the identification, management, monitoring, and evaluation of risks that may arise in the development of the corporate purpose and have as an institutional premise, mitigate possible losses or contingencies that may be incurred.

Likewise, measures and controls were implemented so that the financial, economic, accounting, legal and administrative information is correct, accurate, complete, reliable, and timely in order to contribute to the strict compliance with the applicable regulations and standards and to contribute to the proper decision making.

The objectives and guidelines of the Internal Control System are reviewed and documented by the Comptroller's area and submitted at least once a year by the Board of Directors through the analysis and evaluation of the quarterly reports formulated by the General Management and by the Audit Committee.

Qualitative Information System Remuneration

- a) For all positions there is a fixed remuneration consisting of a monthly base salary and guaranteed benefits that can be annual or monthly, such as:
- Christmas bonus, 30 days a year.
 - Vacation Premium, 25% of vacation days according to the LFT table.
 - Savings Fund, 10% monthly with legal limit.

Management positions have bonus schemes for meeting business objectives and/or goals, profitability, improvement and efficiency projects, service level evaluations, etc.

- b) The Remuneration Committee was integrated into the Risk Committee and its function is to evaluate and, where appropriate, authorize the necessary adjustments to the remuneration schemes of eligible personnel, in compliance with the regulations issued for that purpose.

The Risk and Compensation Committee is composed of:

President Independent Director
Adviser
Independent Director
Chief Executive Officer
Head of Comprehensive Risk Management
Deputy General Director of Risk and Credit Management
Deputy General Director Corporate Administration
Secretary Legal and Trustee Director
Independent Expert Guest with voice, without vote

The Human Resources Department participates in this Committee to inform and, where appropriate, request the approval of modifications and/or new variable compensation schemes of the Remuneration System when necessary. The Finance Department participates by evaluating the results of the schemes of the different areas.

The Remuneration Manual applies to the Executive positions of the first two levels of the Staff areas, for the Executive positions of the first three levels of the Deputy General Directorate of Business and for the Money Market area.

For fiscal year 2021, the list of these positions is:

MONEY DESK	DGA BUSINESS	STAFF
DIRECTOR OF ECONOMIC STUDIES	DIRECTOR ADQ. PARTNERSHIP AND TERRITORY DIRECTOR	CONTROLLER GENERAL
DIRECTOR OF FINANCIAL MARKETS	COMMERCIAL PARTNERSHIP DIRECTOR	DGA RISK AND CREDIT MANAGEMENT
MONEY AND EXCHANGE MARKET DIRECTOR	SELF-SERVICE AND ACQUISITION DIRECTOR	GOVERNMENT CREDIT ANALYSIS DIRECTOR
DIRECTOR OF INTERIOR DISTRIBUTION TABLE	GOVERNMENT BANK DIRECTOR NUEVO LEON	AUDIT DIRECTOR
FINANCIAL MARKET PROMOTION DIRECTOR	DIRECTOR DIGITAL BANKING	DIRECTOR SPECIALIZED BANKING
DERIVATIVE DEPUTY DIRECTOR	BUSINESS BANKING DIRECTOR	CONTROLLER DIRECTOR
DEPUTY DIRECTOR OF PROMOTION	SME BANKING DIRECTOR	MONEY MARKET CONTROLLER DIRECTOR
MONEY MARKET MANAGER	CAPTAINING DIRECTOR	DIRECTOR CORP RELATIONS INSTI AND BCA GOB
ADMINISTRATIVE DEPUTY MANAGER	SME CENTERS DIRECTOR	IT CORP, OPERATIONS AND PROCESSES DIRECTOR
DIRECTOR ASSISTANT	COMMERCIAL DIRECTOR FOR THE TERRITORIAL FORCES	DIRECTOR OF PARAMETRIC CREDITS
	DIRECTOR OF MORTGAGE AND SELF-PLACEMENT	DIRECTOR OF DEVELOPMENT CENTRAL SERVICES AND TRADITIONAL CHANNELS
	DIRECTOR OF NEW TECHNOLOGIES	DIRECTOR OF INFRASTRUCTURE AND SERVICES
	DIVISIONAL DIRECTOR	DIRECTOR OF INFORMATION SECURITY
	COMMERCIAL AND DIGITAL EXECUTIVE DIRECTOR	DIRECTOR OF SECURITY AND INTELLIGENCE
	EXECUTIVE DIRECTOR OF PRODUCTS	CORPORATE SERVICES DEVELOPMENT DIRECTOR
	EXECUTIVE DIRECTOR BUSINESS BUSINESSES	EXECUTIVE DIRECTOR ADMIN. OF RISKS
	DEPUTY MANAGING DIRECTOR OF BUSINESS	EXECUTIVE DIRECTOR CREDIT
	PAYROLL AND PAYROLL CREDIT DIRECTOR	EXECUTIVE DIRECTOR OPERATIONS AND PROCESSES
	CAPTAINING SEGMENT DIRECTOR	LEGAL EXECUTIVE DIRECTOR
	CONSUMER SEGMENT DIRECTOR	EXECUTIVE PROJECTS DIRECTOR
	BUSINESS SEGMENT DIRECTOR	HUMAN RESOURCE EXECUTIVE DIRECTOR
	SME SEGMENT DIRECTOR	TREASURY BALANCE SHEET EXECUTIVE DIRECTOR
	CREDIT AND DEBIT CARD DIRECTOR	FIDUCIARY STRUCTURING DIRECTOR
	CONSUMER SEGMENT DIRECTOR	FINANCE DIRECTOR

	DEPUTY MANAGING DIRECTOR INVESTMENTS
	DEPUTY LEGAL DIRECTOR GENERAL AND FID.
	GOVERNMENT AND INFRASTRUCTURE DIRECTOR
	LEGAL DIRECTOR OF RECOVERY
	LEGAL EXECUTIVE DIRECTOR
	LEGAL STRUCTURING BUSINESS DIRECTOR
	IT PROCESS AND ARCHITECTURE DIRECTOR
	DIRECTOR OF PROCESSES AND SEC CREDITS STRUCT.
	REGULATORY CONTROLLER DIRECTOR
	TRUSTEE DIRECTOR

- c) Banca Afirme operates a Remuneration System that promotes and is consistent with effective risk management.

The Remuneration System considers as eligible personnel the Executive positions of the first two levels of the Staff areas, the Executive positions of the first three levels of the Deputy General Directorate of Business and the Money Market area.

The personnel included were chosen based on the fact that the decisions they make in their daily activities may involve a risk for the Institution.

The extraordinary remuneration schemes established for eligible personnel are subject to analysis by the Comprehensive Risk Management Unit in order to propose adjustments or deferrals to them.

On the other hand, the Comprehensive Risk Management Unit will deliver the analysis described above to the Remuneration Committee, including scenarios and projections on the effects of the materialization of the risks inherent to the activities of the people subject to the Remuneration System and the application of remuneration schemes on the stability and solidity of the Institution.

The last update of the Remuneration System was carried out in April 2020, where the positions of Segment Directors with their own goals and measurements according to their responsibility were integrated into the System. No changes were reported either in the job profiles, or in the job levels established to join the Remuneration System that make decisions that imply a risk for the institution.

The salaries of the participating personnel in the Risk, Audit and Compliance areas are based on the fulfillment of their own and specific objectives in their areas.

- d) The main risks considered when applying remuneration measures are market and credit risks.

These types of risk are a function of the institution's risk appetite and are defined in its respective policy.

Excesses to the established limits are monitored, and the risk levels are considered for the final allocation of the deferral and retention of remuneration.

The risk limits to which the operations are subject are established according to the risk appetite of the Institution.

- e) The main performance parameters for the institution, the business units and the individual staff are related to profitability, operating profit, budget compliance with sales goals, portfolio quality, level of customer service, among others.

Individual remunerations are related to the total performance of the institution to the extent that the purpose for its payment must be generated with the fulfillment of the budgetary goals.

Remuneration can be adjusted, deferred, or canceled based on non-compliance with risk parameters, codes of conduct, breaches of regulations and for not reaching the minimum percentage of compliance with the budget goal.

- f) The variable remuneration to be paid to the Money Market area is calculated by applying 35% to the result generated in each quarter. As a result, the direct expenses identified in this area are deducted, thus determining the total amount to be paid.

To the amount of the variable remuneration resulting from the previous paragraph, 20% is applied and is paid within thirty calendar days after the close of each quarter, the remaining 80% is paid in the four immediately following quarters, applying the equivalent of 20 % in each of the four quarters, as long as the maximum amount of accumulated deferred variable remuneration does not exceed the established retention limits, so once this limit is reached, the amount of the applicable variable remuneration will be paid within 30 calendar days after the end of each quarter.

In the event that the results of the period are negative for the Money Market area, these results will be offset with deferred variable remuneration until they are exhausted.

- g) Variable remuneration in the institution is paid in cash as a concept within the payroll for all employees who participate in the Remuneration System.

Quantitative Information System Remuneration

- a) Number of meetings of the Risk and Remuneration Committee during the year: 4 on a quarterly basis.

- b) Number of employees: 86

1. Number of covered bonds: 3
Percentage: 0.20827%
2. Number of bonds awarded: 79
Percentage: 5.90024%
3. Number of compensation and settlements: 4
Percentage: 0.16443%
4. Bonds pending to be awarded in cash: 0
Percentage: 0%
5. Fixed + Variable Compensation of personnel subject to SR
Total: 19.87400%

- c)

1. Fixed Remuneration: 12.23723%
Variable Remuneration: 5.90024%
2. Transferred: 0%
Not Transferred: 5.90024%
3. Pecuniary: 5.69198%

- d)

1. Percentage exposed to subsequent adjustments: 0%
2. Percentage of reductions made due to adjustments: 0%

Note: The percentage that the account 6410 of Banca Afirme represents with respect to the account 6400 (Administration and Promotion Expenses) is 29.49483% .

OTHER RELEVANT EVENTS

At the end of fiscal year 2021, Banca Afirme has a level of assets of 177,627 million pesos, showing an increase of 3.8% compared to the same period of the previous year.

The credit instruments issued have a balance as of December 31, 2021, of 1,064 million pesos.

Capitalization

The Capitalization ratio of Banca Afirme stood at 15.33% at the end of fiscal year 2021 with a basic capital ratio of 11.95 %.

Issuance of Subordinated Bonds

At the Extraordinary General Shareholders' Meeting held on October 22, 2020, the Shareholders agreed to carry out an issuance of subordinated non-preferred capital bonds and not susceptible to being converted into shares, obtaining authorization from the Central Bank for their issuance through official letters 153/12258/220. The bond issues were performed through a public offering for up to 2,300,000 subordinated bonds with a nominal value of \$ 100 pesos each, which accrue interest at a TIIE rate + 2.8%, this issuance is not guaranteed, the interest payment period is every 28 days, and its maturity will be in October 2030. Said issuance was for an amount of \$ 230, the proportion of the authorized amount of subordinated bonds compared to the amount issued was 100%.

At the Extraordinary General Shareholders' Meeting held on March 17, 2020, the Shareholders agreed to carry out an issuance of subordinated bonds of preferred or non-preferred capital and not susceptible to being converted into shares, obtaining authorization from the Central Bank for their issuance through official letters OFI/003-29279. The issuance of the obligations was carried out through a public offering of up to 20,000,000 subordinated bonds with a nominal value of \$ 100.00 pesos each, which accrue interest at a TIIE rate + 2.8%, this issuance is not guaranteed, the payment period of interest is every 28 days, and its maturity will be in March 2030. Said issuance was for an amount of \$ 500, the proportion of the authorized amount of the subordinated bonds compared to the amount issued was 25%.

At the close of fiscal year 2021, the subordinated obligation program has a balance of 2.736.

Arrendadora Afirme Consolidated Company in Banca Afirme

In accordance with the corporate restructuring approved by the Board of Directors of the entity, on July 19, 2018, the contribution in kind to Banca Afirme, SA of the subscribed and exhibited capital of Arrendadora Afirme SA de CV was approved. formerly a subsidiary of Afirme Grupo Financiero, S.A. de C.V.

Paid-in capital for the increase of future capital

In the Ordinary General Assembly held on March 29, 2021, the shareholders agreed to make an additional paid-in for the increase of future capital of 604 million pesos

In the Ordinary General Assembly held on April 15, 2021, the shareholders agreed to make an additional paid-in for the increase of future capital of 25 million pesos.

At the Ordinary General Meeting held on August 26, 2020, the shareholders agreed to make an additional paid-in for the increase of future capital of 223 million pesos.

Capital increases

At the Extraordinary General Shareholders' Meeting held on May 14, 2021, it was agreed to increase the share capital, by 528 million pesos, by capitalizing the account of "additional paid-in capital"

Payment of dividends

In Banca Afirme, in the Ordinary General Shareholders' Meeting held on October 21, 2021, the shareholders agreed to declare dividends to AGF for 650.0 million pesos.

CERTIFICATION

"The undersigned declare under protest of saying the truth that, within the scope of our respective functions, we prepare the information regarding Banca Afirme contained in this annual report, which, to the best of our knowledge and belief, reasonably reflects its situation. Likewise, we declare that we are not aware of relevant information that has been omitted or falsified in this annual report or that it contains information that could mislead investors".

Jesús Antonio Ramírez Garza
Chief Executive Officer

Gustav M. Vergara Alonso
Chief Financial Officer
Finance controller

Jesús Ricardo Gámez del Castillo
Chief Financial Officer

David Gerardo Martínez Mata
Director of Internal Audits