

**Banca Afirme, S. A., Institución de Banca Múltiple,
Afirme Grupo Financiero y Subsidiarias**
(Subsidiaria de Afirme Grupo Financiero, S. A. de C. V.)

Consolidated financial statements

December 31, 2021 and 2020

(With the Report of the Independent Auditors)

**Banca Afirme, S. A., Institución de Banca Múltiple,
Afirme Grupo Financiero y Subsidiarias**
(Subsidiaria de Afirme Grupo Financiero, S. A. de C. V.)

For the years ended December 31, 2021 and 2020

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(Millions of Mexican pesos)

(1) Description of business and operating regulatory environment-

Banca Afirme, S. A., Institución de Banca Múltiple, Afirme Grupo Financiero (the “Bank”) is a company incorporated under Mexican laws and is located at Av. Juárez No. 800 Sur, Zona Centro, Monterrey, N.L. The Bank is 99.99% owned by Afirme Grupo Financiero, S. A. de C. V. (“Afirm Group”). In accordance with the Law for Credit Institutions (“LIC”, by its acronym in Spanish), it is authorized to carry out multiple banking activities, which comprise, among others, receiving and granting loans, deposit funding, investment securities transactions, repurchase/resell agreement transactions, financial derivative instrument transactions and execution of trust agreements, among others. Its activities are regulated by Banco de México (the “Central Bank”) and by the National Banking and Securities Commission (the Banking Commission).

Some regulatory aspects require that the Bank maintains a minimum capitalization index in relation to market and credit risks for its transactions, compliance with acceptable limits for deposits, obligations and other types of funding that may be denominated in foreign currency, as well as the establishment of minimum paid capital and statutory reserves.

The two subsidiaries of the Bank in whose stockholders’ equity participates at 99.976% and 99.99%, respectively, are described as follows:

- Arrendadora Afirme, S. A. de C. V. Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Afirme Grupo Financiero (the “Arrendadora”) (percentage of ownership at 99.976%), carries out financial and operating leasing agreements of movable and immovable property, acceptance and granting of loans, investment securities and financial instruments transactions.
- Fondos de Inversión Afirme, S. A. de C. V., Sociedad Operadora de Fondos de Inversión (the “Operadora”) (percentage of ownership at 99.99%), carries out assets management transactions, distribution, valuation, promotion and acquisition of shares that are issued by the Investment Funds, as well as the deposit and custody of assets to be invested in shares by investment funds, among others.

The Bank has entered into a responsibilities agreement under the rules established by the Law to Regulate Financial Groups, by which Afirme Group undertakes to have unlimited compliance with the obligations of its subsidiaries, as well as for net losses that may occur.

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(2) Financial statements authorization and presentation

Authorization

On March 31, 2022, Jesús Antonio Ramírez Garza (Chief Executive Officer), Gustavo Manuel Vergara Alonso (General Corporate Financial Director, Finance Controller), Jesús Ricardo Gámez Del Castillo (Chief Financial Officer) and David Gerardo Martínez Mata (Internal Audit Director), authorized the issuance of the accompanying consolidated financial statements and related notes thereto.

In accordance with the General Corporations Law ("LGSM" by its acronym in Spanish), the bylaws of the Bank and the Accounting Criteria for Credit Institutions issued by the Banking Commission, the stockholders and the Banking Commission are empowered to modify the consolidated financial statements after issuance. The accompanying consolidated financial statements for 2021 will be submitted to the next Stockholder's Meeting for approval.

When these notes to the financial statements refer to the balance sheets, income statements, statements of changes in stockholders' equity and cash flows statements, the consolidated versions of said financial statements apply, except when otherwise indicated.

Basis of preparation

a) Statement of compliance-

The accompanying consolidated financial statements have been prepared in accordance with the banking legislation, based on the accounting criteria and operation rules for credit institutions in Mexico (the "Accounting Criteria"), established by the Banking Commission, who is responsible for the inspection and oversight of credit institutions and for reviewing their financial information.

The Accounting Criteria indicates that in the absence of a specific accounting criterion of the Banking Commission, and in a wider context of the Mexican Financial Reporting Standards ("MFRS"), issued by the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A. C. or "CINIF", by its acronym in Spanish), the supplementary process as established by MFRS A-8 shall be applicable, and only when the International Financial Reporting Standards ("IFRS") referred to by MFRS A-8 do not resolve the accounting treatment, the supplementary application of an accounting standard pertaining to other regulatory framework may be opted for, providing all the requirements that must be met in such standard. The supplementary application shall be in the following order: U. S. Generally Accepted Accounting Principles ("US GAAP"), and after any other formal and recognized accounting standard, as long as such accounting standard does not contravene the criterion A-4 of the Banking Commission.

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b) Relative importance-

In accordance with the provisions of the accounting criteria, the financial information shall take into account the provisions of MFRS A-7 "Presentation and Disclosure", with respect to which the responsibility for reporting on the economic entity rests in its Administration, having to gather such information, certain qualitative characteristics such as reliability, relevance, comprehensibility and comparability based on the provisions of MFRS A-1 "Structure of standards of financial information." The Administration should consider the relative importance in terms of MFRS A-4 "Qualitative characteristics of the financial statements", that is, they must show more significant aspects of the Bank recognized as stated in the accounting characteristic associated with relevance. The foregoing implies, among other things, that the relative importance requires the exercise of professional judgment in the circumstances that determine the facts that the financial information reflects. In the same way, an appropriate balance should be obtained between the qualitative characteristics of financial information in order to meet the objective of the financial statements, for which an optimal point should be sought rather than the attainment of maximum levels of all qualitative characteristics.

c) Use of estimates and judgments-

The preparation of consolidated financial statements requires Management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Assumptions and uncertainties in estimates

Information on judgments in the application of accounting policies that have the most important effect on the amounts recognized in the consolidated financial statements and on assumptions and uncertainty of estimates that have a significant risk of resulting in a material adjustment to the recorded amounts of assets and liabilities in the following year, is included in the following notes:

- Valuation of investment securities (notes 3(e) and 7)
- Valuation of derivatives (notes 3(g) and 9)
- Allowance for loan losses (notes 3(j) and 10(g))
- Recognition of deferred tax assets (notes 3(q) and 21)
- Estimation of liabilities for defined benefit obligations to employees (notes 3(v), 16 and 19)

d) Functional and reporting currency-

The aforementioned consolidated financial statements are presented in Mexican pesos (reporting currency), which is the same as the local currency and the functional currency.

For purposes of disclosure to the consolidated financial statements, "pesos" or "\$" means millions of Mexican pesos, and "dollars" or "USD" means U.S. dollars.

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e) Statement of comprehensive income presentation-

Refers to the modification of stockholders' equity during the period for concepts other than distributions and movements in paid-in capital. It includes the year's net income plus other income or loss transactions in the same period, which according to the accounting criteria established by the Banking Commission, are presented directly in stockholders' equity without affecting the statement of income. In 2021 and 2020, the comprehensive income is represented by the net income, the result from valuation of cash flow hedge instruments and the remeasurements for defined employee benefits in conformity with MFRS D-3 "Employee benefits".

f) Recognition of financial assets and liabilities at agreement date -

The accompanying consolidated financial statements recognize the assets and liabilities that proceed from foreign exchange transactions, investment securities, repurchase/resell agreements and derivatives transactions at the date of agreement, independently of their settlement date.

(3) Summary of significant accounting policies-

The accounting policies set out below have been applied uniformly in the preparation of the consolidated financial statements and have been consistently applied by the Bank.

(a) Recognition of effects of inflation-

The accompanying consolidated financial statements include the recognition of the effects of inflation in the financial information based on Investment Units (Unidades de Inversión or "UDI", by its acronym in Spanish) until December 31, 2007, in accordance with applicable accounting standards.

The years ended on December 31, 2021 and 2020 are considered non-inflationary economic environment (cumulative inflation of the last three years is less than 26%), as set in MFRS B-10 "Effects of Inflation"; consequently, any effect of inflation was recognized in the financial information of the Bank. In case an inflationary environment could exist again, cumulative effects of inflation not recognized in the periods in which the economic environment was considered as non-inflationary, must be accounted for retrospectively. Annual and cumulative inflation percentage of the three annual exercises prior to each date indicated, as well as the value of the UDI used for the computations are shown as follows:

| | December 31 | UDI | Inflation | |
|--|-------------|--------|-----------|------------|
| | | | Annual | Cumulative |
| | 2021 | 7.1082 | 7.61% | 14.16% |
| | 2020 | 6.6056 | 3.23% | 11.31% |
| | 2019 | 6.3990 | 2.77% | 15.03% |

(b) Consolidation basis-

The Bank's consolidated financial statements include the balances and transactions of the Bank and its two subsidiaries. The balances and transactions carry out with the two subsidiaries, have been eliminated in the preparation of the consolidated financial statements. The consolidation was prepared based on the subsidiaries' financial statements as of and for the years ended on December 31, 2021 and 2020.

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In those cases in which the subsidiaries and associates do not recognize their operations in accordance with the accounting criteria established by the Banking Commission, the most important corresponding adjustments were made in order to present the information in a homogeneous manner.

(c) Cash and cash equivalents-

This caption includes cash in hand, precious metals (coins), deposits in other banks, 24 and 48-hours foreign exchange transactions, interbank loans with original maturities up to three days ("*Call Money*" transactions) and deposits in the Central Bank, which includes the Regulatory Monetary Deposits ("DRM", by its acronym in Spanish) that the Bank is required to maintain based on the rules issued by the Central Bank in order to regulate the liquidity in the money market; such deposits are not term deposits and accrue interests at the average interbank funding rate, which are recognized in the statement of income when accrued.

Notes received subject to collection are accounted for memorandum accounts under the "Other memorandum accounts" caption. Overdrafts on checking accounts reported in the bank statement issued by the credit institution, are presented under the "Sundry creditors and other accounts payable" caption.

The purchased foreign currencies on 24 and 48-hours transactions, are recognized as a restricted cash (receivable currencies), while the sold foreign currencies are accounted for as a cash outflow (deliverable currencies). The rights and obligations arising from sales and purchases of 24 and 48-hours foreign exchange transactions are accounted for under the "Other accounts receivable, net" and "Sundry creditors and other accounts payable," captions, respectively.

Interest income are included in the year's statement of income as accrued as part of the interest income. The valuation results and the buy and sell of precious metals and foreign exchange transactions are accounted for the financial intermediation income.

(d) Margin accounts-

This caption includes individualized accounts where the market participants or recognized stock exchanges, deposit financial assets (generally cash, securities and other highly liquid assets), which are intended to procure the compliance with obligations related to derivative transactions in order to mitigate the non-compliance risk. The deposit balances correspond to the initial margin call and the subsequent contributions or withdrawals made during the term of the contract.

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The amount of the margin call accounts granted in cash as well as the financial assets other than cash (as debt or stock securities) which are restricted in derivative transactions in recognized markets or stock exchanges, the Bank recorded such under the "Margin call accounts" on the balance sheet. The counterparty of debit or credit nature related to margin call accounts represent a financing granted by the clearing house, or an advance received from the clearing house previously of the derivative settlement, which is presented on an offset basis with the granted margin call account. The Bank recognizes the yields that affect the margin call accounts granted in cash different to the price fluctuations of the derivatives, in the years' income under the "Interest income" caption, as long as the commissions expenses are recorded under the "Commissions and fees expense" caption in the statement of income.

(e) Investment securities-

Includes equities, government securities and other fixed yield securities, listed and non-listed in recognized markets, which are classified using the categories mentioned as follows, based on the intention and capability of the Bank's Management on their ownership.

Trading securities

Represents those securities held for trading on the market. The debt and equity securities are initially accounted at fair value and the transaction costs for the acquisition of such securities are recognized in the statement of income at the acquisition date; the securities are valued at fair value with prices obtained from independent price vendors. The valuation result of trading securities is recognized in the year's income under the "Financial intermediation income" caption. When the securities are sold, gain/loss is calculated by the difference between the buying price and selling price and as a consequence the previously accounted valuation result should be reclassified in the statement of income within the result from sale of financial instruments of the same caption.

Accrued interests on debt securities are determined by the effective interest rate method and are recognized in the statement of income under the "Interest income" caption.

Held-to-maturity securities

Represents debt securities with fixed or determinable payments and a fixed maturity, for which the Bank has the intention and capability to hold until their maturity. These securities are initially recognized at fair value, the transaction costs of their acquisition are initially recognized as part of the investment. Held-to-maturity securities are recognized at amortized cost, which means that the amortization of the premium or discount, and the transaction costs, are part of the accrued interests, which are recognized in the statement of income under the "Interest income" caption.

Transaction costs for the acquisition of these securities are initially accounted for as part of the investment.

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A security cannot be classified as held-to-maturity, if during the current financial year or during previous financial years, the Bank sold securities classified in the category of held-to-maturity, or reclassified securities from the category of held-to-maturity to available-for-sale, unless the amount sold or reclassified during the last twelve months constitutes no more than 15% of the total amount of the held-to-maturity securities at the date of the transaction.

Impairment of a security

When sufficient objective evidence exists that a held-to-maturity security could be impaired as a result of one or more events that have been occurred after the initial recognition of the security, which have had an impact over the future estimated cash flows that can be reliably estimated, the security's carrying value is modified and the impairment amount is recognized in the statement of income under the "Financial intermediation income" caption.

Such events can be, among others: the issuer's significant financial difficulties; probability that the issuer will be declared in bankruptcy or another financial reorganization; breach of the contractual terms such as default in the interest or principal payments; disappearance of an active market for the security because of financial difficulties; decrease in the credit rating and sustained decrease in the issuance's quoted price, in combination with additional information.

If, in a later period, the fair value of the security is increased and such effect is associated with the cause of the impairment, this is reversed in the year's income, except if it is a net equity instrument.

The Bank periodically assesses if the held-to-maturity securities are impaired, through an assessment model at the balance sheet date, or when impairment indicators exist.

Securities that were previously impaired, are assessed on a regular basis in order to identify a possible recovery on their value and reverse the loss that was formerly accounted for, which is reverted in profit and loss when the recovery is identified. There were no signs of impairment as of December 31, 2021 and 2020.

Reclassification between categories

The Accounting Criteria allows reclassifications from held-to-maturity securities to available-for-sale securities, as long as it does not exist the intention to hold them until their maturity date. The valuation result corresponding to the reclassification date is accounted for the stockholders' equity. The reclassifications from any other category to "Held-to-maturity securities", and from "Trading securities" to "Available for sale securities", could be carried out under extraordinary circumstances through authorization of the Banking Commission. For the years ended December 31, 2021 and 2020, the Bank did not carry out transfers between categories, nor sales of held-to-maturity securities.

Value date transactions

Securities acquired where settlement takes place on a subsequent date, up to a maximum of four business days following the date of the purchase-sale transaction, are recognized as restricted securities, while securities sold are recognized as deliverable securities, and are deducted from investments securities; the counter entry is a credit or debit to a settlement account, as applicable. When the amount of deliverable securities exceeds the balance of the own securities of the same nature (government, bank, equity and other debt securities), this is accounted for as a liability under the "Traded securities to be settled" caption in the balance sheet.

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(f) Repurchase/resell agreements-

The Bank recognizes repurchase/resell agreement transactions as follows:

Acting as a purchaser

At the trade date of the repurchase/resell agreement transaction, the cash inflow or otherwise a debit settling account is recognized, as well as an account payable is accounted for, which is measured initially at the agreed-upon price that is registered under the "Creditors on repurchase/resell agreements" caption, which represents the obligation to return such cash to the re-purchaser.

Throughout the term of the repurchase/resell agreement, the account payable is recognized at amortized cost by recognizing the repurchase/resell interest in the year's income as accrued, using the effective interest rate method under the "Interest expense" caption. The financial assets transferred to the re-purchaser are reclassified in the balance sheet, which are presented as a restricted asset, and the valuation remains effective based on the applicable accounting criteria.

Acting as a buyer

At the trade date of the repurchase/resell agreement transaction, the cash outflow or otherwise a credit settling account is recognized, as well as an account receivable is accounted for, which is measured initially at the agreed-upon price that is registered under the "Debtors on repurchase/resell agreements" caption, which represents the right to recover the cash delivered. Throughout the term of the repo agreement, the account receivable is recognized at amortized cost by recognizing the repurchase/resell interest in the year's income as earned, using the effective interest rate method under the "Interest income" caption. The financial assets that may have been received as collateral, are accounted for memorandum accounts and are valued at fair value.

The Bank acting as buyer recognizes the collateral received in memorandum accounts under the "Collaterals received by the entity" caption, following for valuation purposes the accounting criteria B-9 "Custody and asset management". Financial assets given as collateral, acting the Bank as purchaser, are reclassified in the balance sheet, which are presented as restricted assets, under the "Investment securities" caption.

In the event the Bank, acting as a buyer, sells the collateral or offers it as a guarantee, recognizes the resources from such transaction, as well as an account payable derived from the obligation to restore the collateral to the purchaser, which is valued at fair value in case of sale, or if offered as a guarantee in other repurchase/resell agreement transactions, which is valued at amortized cost. Such account payable is offset with the account receivable that is recognized when the Bank, acting as a buyer, becomes a purchaser, and the debit and credit balances are presented under the "Debtors on repurchase/resell agreements" caption or "Collaterals sold or pledged" caption, as applicable.

In addition, the collateral received, delivered or sold is recognized in memorandum accounts in the "Collaterals received and sold or pledged by the entity" caption, following for valuation purposes the accounting criteria B-9 "Custody and assets management".

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(g) Derivative financial instruments transactions-

The transactions with derivative financial instruments include those for hedging and trading purposes. These instruments, regardless of their intention, are recognized at fair value, whose accounting treatment is described below:

Swaps - Cash flow exchange or assets performance (swaps) operations, are accounted for as assets and liabilities based on the rights and obligations arising from the contract. Both, the asset and liability positions are valued at fair value, reflecting the net swap value in the balance sheet and the respective gain or loss in the statement of income.

Options - The obligations (premium collected) or rights (premium paid) for the trading options are accounted at the contracted value and adjusted to fair value, recognizing the gain or loss in the statement of income.

For those derivatives that incorporate rights and obligations such as futures, forwards, or swaps, the asset and liability positions of each transaction are offset, presenting the offsetting debit balance in assets and in case of credit balances in liabilities. For those derivatives that solely grant rights or obligations, but not both, such as the case of options, the corresponding amount of rights or obligations are presented separately in assets or liabilities, respectively.

Derivatives for trading purposes – the valuation effect of derivatives for trading purposes are accounted for in the balance sheet and the statement of income under the “Derivatives” caption and within the valuation result under the “Financial intermediation income” caption, respectively.

Derivatives for hedging purposes – the effective portion of the result from the valuation of hedges designated as cash flow is recognized in stockholders' equity, while the ineffective portion of the change in fair value is recognized in the financial intermediation income. This effect by valuation is presented in the balance sheet under the "Derivatives" caption.

The valuation of the hedges designated as fair value hedges, is recognized in the year's income under the “Financial intermediation income” caption. Furthermore, such valuation effect is presented in the balance sheet under the “Derivatives” caption. The valuation of the primary position is recognized in the year's income under the “Financial intermediation income” caption, and in the balance sheet under the “Valuation adjustments of hedging financial assets” caption.

Given the fact that the derivatives operated by the Bank are denominated as conventional (*Plain Vanilla*), standard valuation models are used, which are included in the Bank's derivative operating and risk management systems.

The derivatives' valuation is performed on a daily basis and the inputs used by the operating and risk management systems are generated by a price vendor, which generates such inputs based on the daily market conditions.

Valuation methods are based on accepted standards and commonly used by the market. Currently, derivatives are valued using the present cash flows value method, except for options. This method consists in estimating the future derivative cash flows, using the difference between the fixed derivative level and the market forward curves at the valuation date, and subsequently to discount such cash flows to their present value. Options are valued under the *Black and Scholes* method, which, in addition to the present value of cash flows, involves the occurrence's volatility and probability for the premium computation.

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Hedging strategies

The hedging strategies are determined on an annual basis and whenever the market conditions demand them. The hedging strategies are submitted to the Risk Committee for their consideration.

Hedging transactions comply with the provisions established in the accounting criteria B-5, "Derivatives and hedging transactions" issued by the Banking Commission. This implies, among other things, that the effectiveness of the hedging derivatives is assessed both prospectively (prior to its arrangement) and retrospectively (after its arrangement). These tests must be performed on a quarterly basis.

Hedging transactions are used to reduce risks from foreign exchange movements, using cross currency swaps and interest rate swaps through interest rate options. The latter in order to cover the risk related to the Bank's fixed-rate mortgage loans portfolio.

The derivatives contracted for hedging purposes can be totally or partially reclassified due to hedging inefficiencies, maturity, or sale of the primary position.

(h) Offsetting of clearing accounts-

The receivable and payable amounts arising from investment securities, repurchase/resell agreements, security loans and/or hedging and trading derivatives that are agreed to settle at a later date of the agreement date, the cash in or cash out shall be recorded as a debit or credit clearing account, as applicable. Further, the receivable and payable amounts arising from foreign exchange transactions where immediate settlement is not agreed or those with a same day value date.

The debit and credit clearing account balances are offset as long as the contractual right exist to offset the recognized amounts and also the Bank has the intention to settle the net amount, or to realize the asset and settle the liability simultaneously.

Clearing accounts are presented under "Other accounts receivable, net" or "Sundry creditors and other accounts payable" captions, as applicable.

(i) Loan portfolio-

Represents the total or partial disposal amounts of the loan commitments granted to the clients plus uncollected accrued interests, less interests collected in advance. The allowance for loan losses is presented deducting the loan portfolio balances.

Financial leases – These are accounted for as direct financing, considering as an account receivable the total of the outstanding uncollected payments, net of the corresponding interest to be accrued. Interests are recognized as income when accrued and the value of the purchase option when it is exercised.

Not disposed credit lines are recorded in memorandum accounts under the "Loan commitments" caption.

At the time of their agreement, transactions with credit letters are recorded in memorandum accounts under the "Loan commitments" caption, which, to be exercised by the customer or by his counterpart are transferred to the loan portfolio.

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Financial and operating leases

The Bank takes into consideration the assessment that performs to identify if the risks and benefits transfer exist to the actual contract, and as such classifies the leases in financial or operating. Financial leases are recorded as a direct financing, considering as a receivable account the total balance of the outstanding leases, net of the corresponding interests to be accrued. Operating leases are represented by the Bank's assets, which are delivered to third parties for benefit or temporary use, for a determined term equal or greater than six months.

Past-due loans and interests

Outstanding loans and interest balances are classified as past-due according to the criteria described as follows:

1. When it is known that the debtor files for bankruptcy protection, according to the Bankruptcy Law.

An exemption exists from the rule mentioned in the previous paragraph, for those loans that payments are being made in terms of the Bankruptcy Law under section VIII of article 43, as well as those loans granted under article 75, in relation to sections II and III of article 224 of the aforementioned Law. However, if incurred in one of the cases provided in the following numeral 2, they will be accounted for as past-due loan portfolio.

2. Installments have not been fully settled based on the original agreed terms, considering the following:

- *Commercial loans with a single amortization at maturity date of principal and interests* – when having 30 or more calendar days since the date that the maturity has occurred.
- *Commercial loans with amortization of principal and interests that was agreed on partial periodic payments* – when the amortization of principal and interests have not been collected and have 90 or more past-due days.
- *Commercial loans with a single amortization of principal and periodic payments of interests* – when the interests have 90 or more past-due days, or the principal has 30 or more past-due days.
- *Revolving consumer loans, credit cards and others* – when the collection has not been made in two billing periods or when having 60 or more past-due days.
- *Residential mortgage loans* – when the outstanding balance has total uncovered on-demand amortizations for 90 or more past-due days.
- *Overdrawn checking accounts with no credit lines* – when occurred.

When a current loan is transferred to past due loan portfolio, the accumulation of accrued interests is suspended and such accrued interest are accounted for memorandum accounts. Likewise, the amortization of interest income is suspended in the statement of income. When collected, these interests are directly recognized in earnings under the "Interest income" caption. The recognition of these interest income in earnings is restarted when the loan portfolio is not deemed as past-due.

An allowance for loan losses is created in totality for interests earned but not collected arising from past-due loan portfolio, when current loans are transferred to past-due loans. For those past-due loans in which their restructuring is agreed during the capitalization of interest accrued but not collected, which were previously accounted for memorandum accounts, an allowance for loan losses is created for the totality of such interests. The allowance is canceled when there is evidence of sustained payment.

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The transfer from past-due loans to current loans is made when the clients settle the totality of outstanding balances (principal and interests, among others), except for the restructured and renewed loans, which are transferred to current loan portfolio when these loans comply with sustained payment appropriately.

Sustained payments

It is considered that there are sustained payments when the borrower presents compliance without delay for the payable total amount of principal and interests, at a minimum of three consecutive billing periods of the credit scheme payment, or in the case of loans with amortization covering longer than 60 calendar days, the payment of an installment.

On loans with periodic payments of principal and interests whose billing periods are lower or equal to 60 days in which the periodicity of payment is modified to minor periods arising from the implementation of a restructuring, a sustained payment of the loan exists when the accredited presents compliance with payment of amortization equivalent to three consecutive payments of the original scheme of the credit.

In case of consolidated loans, if two or more loans originate the reclassification to the "Past-due loan portfolio" caption, to determine three consecutive billing periods required for the existence of sustained payments, should be considered the original scheme of the credit payments whose amortization amounted to the most extensive period.

For loans with a single payment of principal at maturity, irrespective of whether interest is periodic or at maturity, it is considered that there are sustained payments of the loan when any of the following cases occurs:

- a) The borrower has covered at least 20% of the original amount of the loan at the time of restructuring or renewal, or,
- b) It has covered the amount of the accrued interest according to the scheme of payments for restructuring or renewal for a period of 90 days.

Restructurings and renewals

A loan is restructured when the borrower requests the Bank the following situations:

- a) Extension of guarantees covering the loan in question, or
- b) Modifications to the original conditions of the loan or the payment scheme, which includes:
 - i) change in the interest rate established for the remaining credit term;
 - ii) change of currency or unit of account, (e.g. Times Minimum Salary ("VSM", by its acronym in Spanish or UDI);
 - iii) granting of a waiting period with regards to the fulfilment of the payment obligations under the original loan terms, or
 - iv) extension of the loan term.

Past-due loans that are restructured or renewed shall remain as past-due until there is evidence of sustained payment.

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Loans with a single payment of principal at maturity date and periodic interest payments, as well as loans with a single payment of principal and interest at maturity date that are restructured during the term of the loan or renewed at any time, shall be deemed as past-due as long as there is no evidence of sustained payment.

Current loans that are restructured or renewed without at least 80% of the time elapsed as originally agreed, should be deemed as current, solely when the client complies with the conditions mentioned as follows:

- i) the totality of the accrued interests has been fully paid, and
- ii) the loan's original amount has been fully paid, which at the date of renewal or restructuring should had been paid.

The current loans that have been restructured or renewed during the remaining 20% of the original term, should be deemed as current loans solely when the client:

- i) the totality of accrued interests has been paid,
- ii) the totality of the loan's original amount has been paid, which at the date of renewal or restructuring should had been paid, and
- iii) the 60% of the credit original amount has been covered.

In case all the conditions described in the preceding paragraph are not met, the loans shall be deemed as past-due from the moment they are restructured or renewed and until there is evidence of sustained payments.

Those loans categorized as revolving, which are restructured or renewed at any time shall be deemed as current, only when the borrower had settled all of the accrued interests, the loan does not have past-due billing periods, and management has elements that indicates the debtor's payment capability.

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Loans shall not be considered under this category when at the restructuring date, such comply with the total payment of principal and interests and only one or more of the original loan conditions are modified, as described as follows:

- i) *Guarantees*: If only involves the extension or replacement of better quality guarantees.
- ii) *Interest rate*: When the agreed interest rate is improved.
- iii) *Currency*: As long as the interest rate is applied to the new currency.
- iv) *Due date*: Only when the change does not imply to exceed or modify the due date. In any case, the change in the due date should allow the lack of payment in any billing period.

Restructurings and renewals of loan portfolio are conducted in compliance with the Provisions and an analysis is performed on a single-case basis to ensure viability.

The Bank assesses on a regular basis if a past-due loan should remain in the balance sheet or shall be written-off, as long as such loans have an allowance for loan losses equivalent to 100%. Such write-off is made by cancelling the unpaid loan balance against the allowance for loan losses previously recorded for each loan. In relation to the car non-revolving consumer loan portfolio and credit cards portfolio, the Bank applies write-offs when these loans have a seniority of 270 and 150 days, respectively.

Any recovery derived from loans that were previously written-off is recognized in the year's income.

Write-downs, cancellations, refunds or discounts are recorded with a debit to the allowance for loan losses. In case the amount of these items exceed the balance of the allowance for loan losses related to the loan, an allowance for loan losses is recorded previously up to the amount of the difference.

Special accounting criteria applicable to the year 2020, derived from the health contingency due to COVID-19

Derived from the health contingency caused by COVID-19 and the negative impact on the economy, on 27 March 2020, the Banking Commission temporarily issued special accounting criteria for credit institutions with respect to the consumer, commercial and mortgage loan portfolio for housing customers that have been affected and that were classified as effective as of February 28, 2020 (With the exception of those granted to related parties as provided in articles 73, 73 Bis and 73 Bis 1 of the LIC, or those that are located under the "Permanent Program of Support to the Affected Areas for Natural Disasters" from FIRA, or for those credits that are already part of some other program profit). The Bank applied during 2020 these special accounting criteria by establishing the accounting policies described below:

They were not considered as restructured loans or as an overdue portfolio according to the accounting criteria B-6 credits that as of February 28, 2020 were classified as current for accounting purposes and that are subsequently restructured or renewed, whose procedures were completed within 120 calendar days following the aforementioned date, and in which their new expiration period was not greater than 6 months from the date on which the following credits would have expired:

1. Credits with a single payment of principal at maturity and periodic interest payments,
2. Credits with a single payment of principal and interest upon maturity,

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3. Credits with periodic payments of principal and interest consisting of:
 - i. Not having elapsed at least 80% of the original term of the loan, when the borrower has covered:
 - a) all accrued interest, and
 - b) the principal of the original amount of the loan, which on the date of the renewal or restructuring should have been covered.
 - ii. During the final 20% of the original term of the loan, when the borrower has:
 - a) paid all accrued interest,
 - b) covered the entire original amount of the loan that owed on the renewal or restructuring date have been covered, and
 - c) 60% of the original amount of the credit is covered.

(j) Allowance for loan losses-

An allowance for loan losses is kept, which in the opinion of Management, is sufficient to cover any losses that may arise from either the loans included in its loan portfolio, as well as other credit risks from guarantees and irrevocable commitments by granting loans.

Loan portfolio is rated based on the methodology established by the Banking Commission. For commercial loans (business or commercial activity, financial entities and government entities), consumer loans and residential-mortgage loans, the Bank applies the Provisions related to loan portfolio rating, which are issued by the Banking Commission and published in the Federal Official Gazette ("DOF", by its acronym in Spanish).

General Description of the Regulatory Methodologies established by the Banking Commission

The regulatory methodologies to rate the consumer, residential mortgage and commercial loans (excluding loans related to investment projects with own source of payment), establish that the allowance for such loan portfolios is determined based on the allowance of expected loss for credit risk (regulatory expected loss).

Such methodologies set that the allowance of such expected loss includes an assessment over the probability of default, loss given default and the exposure at default, and when multiplying these three factors the result represents the allowance for the expected loss, which is equal to the amount of allowances that are required to face the credit risk.

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Depending on the type of loan portfolio, the probability of default, loss given default and exposure at default, the regulatory methodologies are determined as follows:

Probability of default

- *Non-revolving consumer loans.* - takes into account current delinquencies, historic delinquency, payments that are made with respect to the balance of the last installments required, the type of loan and percentage of the loan balance, among others, and additional considerations related to the credit behavior observed with all the banking institutions as reported by the credit information agencies, among other factors.
- *Revolving consumer loans.* – takes into consideration the current situation and the historical behavior in relation to the number of default payments, the aging of the loan accounts with the Bank, the payments made in relation to the loan balance, as well as the exercised percentage of the authorized credit line, and the credit behavior observed with all the banking institutions as reported by the credit information agencies.
- *Residential mortgage loans.* - takes into account current delinquency, the maximum number of late payments in the last four billing periods, willingness to pay and the value of the residence in relation to the loan balance, among others, and the credit behavior observed with all the banking institutions as reported by the credit information agencies.
- *Commercial loans.* – takes into account the type of borrower, the experienced factors based on the information provided by the credit information agencies, payment experience with the INFONAVIT, assessment of the rating agencies, financial risk, socioeconomic risk, financial strength, country and industry risks, market position, transparency and standards, corporate governance and management capability.

Loss given default

- *Non-revolving consumer loans.* – according to the number of delinquent payments (arrears).
- *Revolving consumer loans.* - according to the number of delinquent payments.
- *Residential mortgage loans.* - according to the number of missed payments (arrears) and considered the factor of cures, the Cumulative Loan to Value (CLTV), amount of the mortgage funding sub-account, unemployment insurance, life insurance, death rate corresponding to the age of the borrower, the guarantee given by a development bank institution or by a public trust established by the Federal Government for economic development, and to the federal entity where the loan was granted, in addition to the formalization of the credit scheme.
- *Commercial loans.* – taking into account the financial and non-financial real guarantees and personal guarantees, as well as the number of delinquent months that the loan has got.

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Exposure at default

- *Non-revolving consumer loans.* – loan balance at the rating date.
- *Revolving consumer loans.* – takes into account the current usage level of the credit line to estimate how much the credit line usage would increase in case of delinquency.
- *Residential mortgage loans.* - loan balance at the rating date.
- *Commercial loans.* – for revocable loans the loan balance is taken into account at the rating date. For non-revocable loans the current usage level of the credit line is taken into account to estimate how much the credit line usage would increase in case of delinquency.

According to the Provisions, the classification of the allowance for loan losses, is as shown below:

| Percentage of allowance for loan losses | | | | |
|--|---|--|---|-----------------------------|
| Risk rating | Revolving consumer loans | Non- revolving consumer loans | Residential mortgage loans | Commercial loans |
| A-1 | 0 to 3.00% | 0 to 2.00% | 0 to 0.50% | 0 to 0.90% |
| A-2 | 3.01 to 5.00% | 2.01 to 3.00% | 0.501 to 0.75% | 0.901 to 1.50% |
| B-1 | 5.01 to 6.50% | 3.01 to 4.00% | 0.751 to 1.00% | 1.501 to 2.00% |
| B-2 | 6.51 to 8.00% | 4.01 to 5.00% | 1.001 to 1.50% | 2.001 to 2.50% |
| B-3 | 8.01 to 10.00% | 5.01 to 6.00% | 1.501 to 2.00% | 2.501 to 5.00% |
| C-1 | 10.01 to 15.00% | 6.01 to 8.00% | 2.001 to 5.00% | 5.001 to 10.00% |
| C-2 | 15.01 to 35.00% | 8.01 to 15.00% | 5.001 to 10.00% | 10.001 to 15.50% |
| D | 35.01 to 75.00% | 15.01 to 35.00% | 10.001 to 40.00% | 15.501 to 45.00% |
| E | Greater than 75.01% | 35.01 to 100.00% | 40.001 to 100.00% | Greater than 45.00% |

Non-performing loan portfolio – it relates to those commercial loans that are determined, based on current information and facts as well as the loan review process, there is a considerable probability that the capital and interest components will not be recovered in full, based on the terms and conditions originally agreed. The current and past-due loan portfolio are likely to be considered under this classification.

Commercial credits with a probability of default equal to 100% according to the methodology established in the Provisions and those classified mainly in risk grades C, D and E; as well as some outstanding loans of clients that present accounting past due portfolio are considered as non-performing loan portfolio. As of December 31, 2021 and 2020, the non-performing loan portfolio (see note 27 “Risk Management”) are loans that amount to \$2,054 (\$1,196 and \$858 of current and past due portfolio, respectively) and \$886 (\$100 and \$786 of current and past due portfolio, respectively), respectively.

Additional identified allowances– these kind of allowances are established for those loans, which management believes, would be deemed as troubled debt in the future given the borrowers’ financial situation, industry or economy. Furthermore, it includes allowances for items such as uncollected ordinary accrued interests deemed as past-due loans, allowances for operating risks and other items that management estimates could result in a loss for the Bank, as well as allowances held due to regulation standards.

When the practical impossibility of recovery is determined, loans rated as irrecoverable are written-off against the allowance for loan losses. Additionally, for those commercial loans deemed as past-due and fully reserved, management assesses on a regular basis if those shall be applied against the allowance for loan losses.

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Any recovery derived from loans that were previously written-off, is recognized in the year's income.

Cancellation of surpluses in the allowance for loan losses-

The excess of the allowance for loan losses must be canceled from the balance sheet against the results of the year, affecting the heading of "Allowance for loan losses".

(k) Other accounts receivable-

Loans to officers and employees, collection rights and accounts receivable, whose maturity was agreed-upon for a term of greater than 90 calendar days, are assessed by management to determine its estimated recovery value, and, if applicable, to create the corresponding reserves.

Account receivables that are not referred on the previous paragraph, are reserved with a debit in the year's income within 90 days of the initial accounting record (60 days if the balances are not identified), regardless if such receivables are likely to be recovered, except for recoverable tax balances and creditable value-added tax.

Demand papers that are maintained as outstanding balances for fifteen calendar days, are classified as past-due debts and an allowance for doubtful accounts it is simultaneously created for the total amount of the same ones.

(l) Foreclosed assets or assets received in lieu of payment -

Foreclosed assets acquired through judicial adjudication, are accounted on the effective date when the judicial order was dictated.

Assets received in lieu of payment are accounted for when the deed of payment was signed, or when the transfer of the asset is formally executed.

The accounting recognition of a foreclosed assets considers the value of the asset (at the lower between its cost or its fair value, less strictly necessary costs and expenses incurred for foreclosure), as well as the net value of the asset arising the foreclosure. When the net value of the asset arising the foreclosure exceeds the value of the foreclosed asset, the loss is recognized in the statement of income under the "Other operating income, net" caption. Otherwise, the value of the foreclosed asset is adjusted to the net value of the asset.

The value of the asset that originated the foreclosure and the relevant reserve set up as of that date are derecognized from the balance sheet.

Foreclosed assets committed for sale are restricted to their carrying value; collections received on account of the asset are accounted for as a liability. On the date of sale, the resulting gain or loss is recognized in the statement of income under the "Other operating income, net" caption.

Reductions in the value of foreclosed assets are valued according to the type of asset concerned, recording such valuation in the statement of income under the "Other operating income, net" caption. The Bank creates additional reserves that represent signs of impairment from potential value losses over the time of foreclosed assets, which is accounted for the year's income under the "Other operating income, net" caption. Such reserves are determined by multiplying the reserve percentage applicable by the value of the foreclosed assets, as it is shown below:

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| Months elapsed from the date of foreclosure or received in lieu of payment | <u>Percentage of allowance</u> | |
|---|--------------------------------|--|
| | <u>Real estate</u> | <u>Movable property, collection rights and investment securities</u> |
| Up to 6 | 0% | 0% |
| More than 6 and up to 12 | 0% | 10% |
| More than 12 and up to 18 | 10% | 20% |
| More than 18 and up to 24 | 10% | 45% |
| More than 24 and up to 30 | 15% | 60% |
| More than 30 and up to 36 | 25% | 100% |
| More than 36 and up to 42 | 30% | 100% |
| More than 42 and up to 48 | 35% | 100% |
| More than 48 and up to 54 | 40% | 100% |
| More than 54 and up to 60 | 50% | 100% |
| More than 60 | 100% | 100% |

The amount of reserves to be created will be the result of multiplying the corresponding reserve percentage per the previous table, to the foreclosed value of real estate based on the Accounting Criteria.

(m) Premises, furniture and equipment, and installation costs, net-

Premises, furniture and equipment and installation costs are originally accounted for at acquisition cost. These assets acquired before December 31, 2007, were adjusted by using factors based on the UDI value.

Depreciation and amortization are calculated using the straight-line method, based on the estimated useful lives of the corresponding assets, over the updated values, except for improvements to the leased assets, which are amortized based on the agreed term as per the leasing contract.

The Bank periodically assesses the updated long-lived asset values to determine the existence of impairment indicators. The recovery value represents the amount of potential net income that are reasonably expected to obtain from the usage of such assets. If determined that the updated values are excessive, the Bank records the necessary reserves to reduce them to their recovery value. When the assets are intended to be sold, they are recognized in the consolidated financial statements at the lower of their updated, or realization value.

Maintenance costs and minor repairs are accounted for the year's income as incurred.

(n) Investments in subsidiaries-

The Bank exercises significant influence over some associated companies and unconsolidated subsidiaries by Commission's rule, which are valued using the equity method. The Bank's participation in the results of associated companies is recognized in the year's income and the participation in the increase or decrease in other stockholders' equity accounts are recognized in the Bank's stockholders' equity.

Investments where the Bank does not exercise significant influence are classified as other permanent investments, which are recognized at acquisition cost and the dividends coming from these investments, are recognized in earnings under the "Other operating income, net" caption.

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(o) Other assets, deferred charges and intangibles-

Other assets, deferred charges and intangibles are recognized as long as they are identifiable and provide future economic benefits, which are measurable and subject to control. Intangible assets with indefinite useful life mainly include brands and products. These assets are accounted at acquisition cost. Intangible assets with finite life are amortized using the straight-line method based on the estimated useful life that is estimated by the Bank's management.

When there are impairment indicators over the asset value, the possible impairment loss is determined, in the case that the recovery value is lower than the net carrying amount and as a consequence the asset value is reduced and the impairment loss is recognized in the year's income.

(p) Costs and expenses related to loan origination-

The Bank recognizes as a deferred charge the costs and expenses associated with loan origination, which are amortized as an interest expense during the same period in which income related to collected commissions is recognized. Costs and expenses that the Bank differs, are deemed as incremental. According to the Accounting Criteria issued by the Banking Commission, they are presented net of collected commissions related to loan origination under the "Deferred credits" caption on the balance sheet.

(q) Income Tax (IT) and Employee Statutory Profit Sharing (ESPS) -

IT is determined in accordance with current tax regulations. Current ESPS is determined in accordance with Article 125 of the Federal Labor Law.

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Deferred IT is recorded in accordance with the asset and liability method, which consists in comparing such accounting and tax values. Deferred IT (assets and liabilities) is recognized for future tax consequences attributable to temporary differences between the values reflected in the consolidated financial statements of existing assets and liabilities and their relative tax bases, as well as for tax carryforwards to be amortized and other tax credits to be recovered. Assets and liabilities for deferred IT are calculated using the rates established in the corresponding Law, which will be applied to the taxable income in the years in which it is estimated that the temporary differences will be reverted. The effect of changes in tax rates on deferred IT is recognized in the consolidated income of the period in which such changes are approved.

The deferred IT asset is periodically evaluated, creating, if applicable, a valuation reserve for those temporary differences for which there may not be a future recovery.

The asset or liability for IT that is determined by the deductible or cumulative temporary differences of the period, which is presented in the balance sheet.

The current ESPS is accounted for under the "Administrative and promotion expenses" caption in the statement of income.

(r) Deposit funding-

This caption includes deposits of immediate enforceability, time deposits from the general public and those captured through operations in the money market, the credit instruments issued and the account global collection without movements, which are integrated as described below:

- a) Demand deposits. They include checking accounts, savings accounts, and current account deposits, among others.

Overdrafts in the checking accounts of Bank customers, who do not have a credit line Credit for such purposes, are classified as overdue debts under the heading of "Other accounts for collect, net" and the Bank constitutes simultaneously to said classification an estimate of irrecoverability for the total amount of said overdraft, at the time such event occurs.

- b) Time deposits. They include, among others, certificates of deposit withdrawable in days pre-established, bank acceptances and promissory notes with yield payable at maturity captured the general public and through money market operations, the latter referring to Time deposits made with other financial intermediaries, as well as with companies and government entities treasuries.
- c) Credit titles issued. They are made up of, among others, bank bonds and stock certificates.
- d) Global deposit account without movements. Includes the principal and interest of the instruments of deposits that do not have an expiration date, or that having it are renewed in the automatic, as well as overdue and unclaimed transfers or investments.

If in the course of three years counted from when the resources are deposited in the global deposit account without movements, the amount of which does not exceed per account, the equivalent of three hundred units of measurement and updating ("UMAS"), they will prescribe in favor of the patrimony of the public charity, The Bank will be obliged to report the resources corresponding to the public charity within a maximum period of fifteen days from December 31 of the year in which the aforementioned assumption is fulfilled.

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Deposit funding interests are recognized in income as they are accrued within the caption of "Interest expense".

(s) Subordinated debentures outstanding-

The issuer of a financial instrument must classify the instrument or the components that comprise it, in the moment of its initial recognition, as a financial liability or an equity instrument, according to its economic substance and not only to its legal form. In an equity instrument the holder is exposed to the equity risks and benefits of the entity, instead in a debt instrument that represents a financial liability there is a virtually inescapable obligation of the entity to transfer cash, goods or services to the holder for the payment of the debt.

In the event that a financial instrument specifies a payment amount and a specific date for the itself is classified as liability financial instrument and not a equity instrument.

The subordinated obligations of forced conversion to equity issued by the Bank that are acquired directly or through a trust by those entities that maintain direct participation or indirect in the capital of the entity itself, are recorded as a liability. The costs of issuing a financial instrument that qualifies as a liability must be deducted from the amount of said liability. The interests, gains or losses on a financial liability including the amortization of issuance expenses, recognized in income as accrued.

(t) Interbank loans and loans from other organizations-

Direct loans received from national and foreign banks, loans obtained through credit auctions with the Central Bank and financing by development funds. Likewise, it includes loans for discounted portfolio that come from the resources provided by the banks specialized in financing economic, productive or development activities. The interests are recognized in income as accrued.

(u) Sundry creditors and other accounts payable-

Sundry creditors and other accounts payable include the reserve for labor obligations, provisions and other accounts payable for the provision of banking services, commissions payable, creditors for settlement of operations, security deposits received and certified and cash checks, among others. The Bank liabilities are recognized in the balance sheet, if they meet the characteristic of being a present obligation, where the transfer of assets or presentation of services is virtually unavoidable, arises as a result of a past event, its amount and maturity are clearly established, and can be reliably estimated.

(v) Employee benefits-

Short-term direct benefits

Short-term direct employee benefits are recognized in income of the period in which the services rendered are accrued. A liability is recognized for the amount expected to be paid if the Bank has a legal or assumed obligation to pay this amount as a result of past services provided and the obligation can be reasonably estimated.

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Long-term direct benefits

The Bank's net obligation in relation to direct long-term benefits and which the Bank is expected to pay at least twelve months after the date of the most recent balance sheet presented, is the amount of future benefits that employees have obtained in exchange for their service in the current and previous periods. This benefit is discounted to its present value. Remeasurements are recognized in income in the period in which they are accrued.

Termination benefits

A liability is recognized for termination benefits along with a cost or expense when the Bank has no realistic alternative other than to make the corresponding payments or when the offer of these benefits cannot be withdrawn or when the conditions that require the recognition of restructuring costs are met, whichever occurs first. If they are not expected to be settled within 12 months of the end of the annual financial year, then they are discounted.

Post-Employment Benefits

Defined benefit plans

The Bank's net obligation corresponding to defined benefit plans for pension plans and seniority premiums is calculated separately for each plan, estimating the amount of future benefits that employees have earned in the current year and in previous years, discounting said amount and deducting from it, the fair value of the plan assets.

Remeasurements (before actuarial gains and losses), resulting from differences between the projected and actual actuarial hypotheses at the end of the period, are recognized in the period in which they are incurred as part of comprehensive income within stockholders' equity.

(w) Revenue recognition-

Interest from current loans are recognized in earnings as accrued. Interest earned on past-due loans portfolio are recognized in income until they are collected.

Interest and commissions charged in advance are recorded as a deferred income under the "Deferred credits" caption, and such are recorded in the year's results on an accrual basis.

The fees charged due to loan granting will be booked as a deferred credit, which will be amortized against the year's earnings as interests under the method of straight line during the life of the loan, except for those arising from revolving loans which must be accrued for a period of 12 months.

For the fees charged by restructuring or renewal of loans, these must be added to the fees that would have been originated in accordance with the preceding paragraph recognizing a deferred credit, which is amortized and recorded in earnings as interest income, under the straight-line method during the new term of the credit.

The commissions that are recognized subsequent to the granting of loans will not be part of this category, neither those that are generated as part of the maintenance of such loans, nor those charged on loans that have not been placed. In the case of fees charged by credit card annuity concept, either the first annuity or subsequent renewal concept, they will be recognized as a deferred credit and will be amortized over a period of twelve months and recorded under the "Commissions and fees income" caption.

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For the charged commissions originated by granting a line of credit that has not been paid, at that time, a deferred credit shall be recognized, which is amortized against the year's earnings as interest income by the straight line method for a period of twelve months. In the event that the credit line is cancelled before the end of the period of twelve months, the outstanding balance carryforwards should be recognized directly on the year's earnings under the commissions and fees income caption, at the date on which occurs the cancellation of the line.

Commissions and fees other than the one charged by granting the loan, shall be recognized in the year's earnings under the commissions and fees income caption, at the date on which accrued. In the event that part or all of the payment received of the fee collection is received in advance to the relative income accrual, such advance shall be recognized as a liability.

Earned fees related to assets in trust or under mandate are recognized in the year's results as accrued, and a reserve of 100% is created for those not collected commissions within 90 days.

Collected premiums related to repurchase/resell agreements are recognized in the year's results as accrued based on the effective interest rate method. Interests related to fixed-income investment securities are recognized in the year's results as accrued.

Commissions charged by restructuring or renewal of loans are deferred and recognized in earnings during the remaining term of the loan. Other commissions are recognized when they are generated under the "Commissions and fees income" caption.

Interest income related to financial leases are recorded in the year's results on an accrual basis. Accrued interests related to past-due loan portfolio are recorded in the year's results until collected.

The final value of financial leases is recorded as income when the purchase option is exercised.

Operating leases income is recognized in the year's results as accrued.

(x) Foreign currency transactions-

The accounting records are expressed in pesos and foreign currencies, which, for purposes of presentation of the consolidated financial statements presentation, in the case of currencies other than dollars, they are translated from the respective currency to dollars as established by the Banking Commission, and the dollar equivalent, together with dollar balances, are then translated into Mexican pesos using the exchange rate determined by the Central Bank. Foreign exchange gains and losses are reflected in the year's results.

(y) Contributions to the Bank Savings Protection Institute ("IPAB", by its acronym in Spanish)-

Among other provisions, the Bank Savings Protection Law created the IPAB, whose purpose is to establish a system to protect the savings of the public and regulate the financial support granted to banking institutions in order to comply with this objective. According to such Law, the IPAB guarantees depositors' accounts up to 400 thousand UDIS per individual.

The Bank records in the year's results the mandatory IPAB contributions.

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(z) Contingencies-

Liabilities or important losses related to contingencies are recorded when it is probable that a liability could be materialized and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the consolidated financial statements. Contingent income, earnings or assets are recognized until their realization is assured.

(aa) Memorandum accounts-

Following there is a description of the main memorandum accounts:

- Guarantees granted- the guarantees that are granted as a result of a credit opening are recorded in this caption.
- Loans commitments- the amount of the loan letters granted by the Bank that are deemed as irrevocable commercial loans that are not disposed by the borrowers, as well as the credit lines that have not been disposed by the clients.
- *Assets in trust or under mandate.* – in the first case, the Bank accounts for the value of the assets received in trust, and the data related to the management of each asset is kept in separate records. In the assets under mandate account, the declared value of the assets is accounted for by the Bank; this value corresponds to the agreed mandate contracts.
- *Other memorandum accounts.* - Mainly includes the balances related to rated loan portfolio, the balance of the loan portfolio contracts to be exercised, documents received as a guarantee related to the financial leasing transactions, guarantees received and available balances of liability credit lines.
- *Assets in custody or under management.* - the transactions on behalf of third parties are accounted for in memorandum accounts, such as: trading securities, repurchase/resell agreements and contracts where the Bank is responsible for safeguarding assets.
- *Collaterals received by the entity.* - the balance of this account represents the total of collaterals received in repurchase/resell agreement transactions, in which the Bank acts a buyer.
- *Collaterals received and sold or pledged by the entity.* - the balance of this account represents the collaterals received in repurchase/resell agreement transactions, in which the Bank acts as a buyer, and at the same time that such collaterals had been sold by the Bank when acting as a purchaser.
- *Investments on behalf of customers, net.* - the balance of this account represents the amount of securitized certificates that belong to affiliate companies and direct sells.
- *Interest accrued but not collected of past-due loan and leasing portfolios.* - under this account the Bank accounts for interest or income earned but not collected corresponding to loans that are deemed as past-due.

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(4) Special Accounting Criteria (“CCE”) applicable to the year 2020 issued by the Banking Commission derived of pandemic COVID-19-

Provide on the loan portfolio accounting policies, derived from the health contingency caused by COVID-19 and the negative impact on the economy, on March 26, 2020, the Banking Commission temporarily issued special accounting criteria for financial institutions. of credit regarding the commercial, consumer and housing mortgage loan portfolio for customers who have been affected and who were classified as current as of February 28, 2020 (with the exception of those granted to related persons as provided in articles 73, 73 Bis and 73 Bis 1 of the LIC). In relation to said special accounting criteria, the Bank applied the special accounting criteria mentioned in the accounting policies.

On the second quarter of 2020, in order to support its customers, the Bank decided to apply the CCE issued by the Banking Commission, granting all those customers enrolled in the program a payment deferral scheme of 4 or 6 monthly payments, and in the case of restructuring, granting a payment term that goes from 12 to 72 months depending on the type of product; without this meaning affecting your credit history or the accumulation of default interest. The foregoing instead of applying what is established in bulletin B-6 “Loan Portfolio” issued by the Banking Commission. Additionally, the CCEs granted the regulatory facility of not registering the restructured loans as past due portfolio or as portfolio in arrears, which made it possible not to increase the reserves during the payment deferral.

On December 31, 2020, the payment deferral terms for those credits attached to the programs mentioned above have concluded; the detail of the same by type of portfolio that are still active as of that date is as follows:

| Portfolio type | Number of loans | Amount |
|----------------------|-----------------|----------|
| Commercial portfolio | 1,663 | \$ 4,989 |
| Consumer portfolio | 13,806 | 1,219 |
| Mortgage portfolio | 1,693 | 2,627 |
| Total | 17,162 | \$ 8,835 |

As of and for the year ended December 31, 2020, the amounts that would have been recorded and presented both in the balance sheet and in the income statement, if the special accounting criteria issued by the Banking Commission had not been applied, are shown in the next sheet.

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Balance sheet

| Category | Special accounting criteria | Current accounting criteria | Effect |
|-------------------------------|--|--|---------------|
| Current loan portfolio: | | | |
| Commercial | \$ 31,873 | 31,624 | (249) |
| Consumer | 7,873 | 7,812 | (61) |
| Mortgage | 7,902 | 7,771 | (131) |
| Total current loan portfolio | 47,648 | 47,207 | (441) |
| Past-due portfolio: | | | |
| Commercial | 789 | 1,038 | 249 |
| Consumer | 282 | 343 | 61 |
| Mortgage | 478 | 609 | 131 |
| Total past due loan portfolio | 1,549 | 1,990 | 441 |
| Less: | | | |
| Allowance for loan losses (1) | 2,106 | 2,106 | - |
| Net loan portfolio | \$ 47,091 | 47,091 | - |

Statement of income

| Caption | Special accounting criteria | Current accounting criteria | Effect |
|-------------------------------|--|--|---------------|
| Interest income | \$ 14,261 | 14,252 | (9) |
| Allowance for loan losses (1) | 1,755 | 1,755 | - |
| Income tax | (100) | (97) | 3 |
| Net income | 321 | 315 | (6) |

(1) If the CCE issued by the Banking Commission had not been applied, an allowance for loan losses would have been generated in the amount of \$142, however, the Bank has recorded additional reserves as of December 31, 2020 in the amount of \$440.

The classification both current and past due portfolio that is presented in the balance sheet and the calculation of the allowance for loan losses that would have been recorded both in said balance sheet and in the income statement if the CCE issued by the Commission had not been applied. Banking, was based on the estimate made by the Management on the possible non-compliance that the credits attached to the Bank's support programs would have had, considering, among other factors, the payment history of the borrowers and the status of the credit portfolio. at the time of its restructuring.

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(5) Foreign currency position-

Central Bank regulations require that Banks maintain balanced positions in foreign currencies within certain limits. The short or long position permitted by the Central Bank is equal to a maximum of 15% of the basic capital, and the contracting of liabilities in foreign currencies should not exceed 183% of such capital. As of December 31, 2021 and 2020, the Bank held leveled positions.

Following there is an analysis of the consolidated position in foreign currency as of December 31, 2021 and 2020, in millions of dollars:

| | 2021 | 2020 |
|---|---------------------|-------------|
| | Millions of dollars | |
| Assets, mainly cash and cash equivalents and loan portfolio | 149 | 136 |
| Liabilities, mainly deposit funding and derivatives | (149) | (136) |
| Net position | - | - |

The US Dollar exchange rate as of December 31, 2021 and 2020, was \$20.5075 and \$19.9087 pesos per dollar, respectively, so the translated amounts of the asset and liability positions amount to \$3,056 and \$2,700, respectively. On March 31, 2022, date of the issuance of the consolidated financial statements the exchange rate was \$19.8632 pesos per dollar.

In addition, as of December 31, 2021 and 2020, the Bank had 35 and 34 thousand euros in both years at an exchange rate of \$23.31 and \$24.49 pesos per euro, respectively, which are registered under the “Cash and cash equivalents” caption.

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(6) Cash and cash equivalents-

As of December 31, 2021 and 2020, the “Cash and cash equivalent” by currency type is analyzed as shown below:

| | 2021 | | | 2020 | | |
|---|----------------------|-----------------------------------|-------|----------------------|-----------------------------------|-------|
| | Domestic currency | Translated foreign currency | Total | Domestic currency | Translated foreign currency | Total |
| Cash | \$ 1,610 | 159 | 1,769 | 1,983 | 402 | 2,385 |
| Deposits in banks | 5,373 | 1,954 | 7,327 | 3,218 | 617 | 3,835 |
| Restricted cash and cash equivalents: | | | | | | |
| Deposits with the Central Bank ⁽¹⁾ | 274 | - | 274 | 265 | - | 265 |
| Interbank loans ⁽²⁾ | - | - | - | 200 | 597 | 797 |
| Foreign exchange purchases ⁽³⁾ | - | 99 | 99 | - | 80 | 80 |
| Foreign exchange sales ⁽³⁾ | - | (99) | (99) | - | (80) | (80) |
| Other cash and equivalents | 3 | - | 3 | 10 | - | 10 |
| | \$ 7,260 | 2,113 | 9,373 | 5,676 | 1,616 | 7,292 |

(1) As of December 31, 2021 and 2020, the Central Bank's unique account includes the Bank's DRM, which amounted to \$274 and \$265, respectively. Such DRM deposits will have an indefinite term for which the Central Bank will inform in advance the date and procedure for the withdrawal of the balance thereof. Interest on deposits is payable every 28 days by applying the rate set out in the regulation issued by the Central Bank. Interest income from DRM for the years ended December 31, 2021 and 2020 amounted to \$12 and \$28, respectively.

(2) As of December 31, 2021, they had no call money operations in force. As of December 31, 2020, the call money agreed in dollars, expired on January 4, 2021. During the years ended December 31, 2021 and 2020, call money transactions accrued interests at weighted average (non-audited) rates of 4.53% and 5.44% in Mexican pesos and 0.61% and 0.51% in US dollars, respectively.

(3) In order to record foreign exchange transactions to be delivered or received for sales and purchases under the “Cash and cash equivalents” caption, the clearing accounts of these transactions are recorded on the balance sheet under “Other accounts receivable, net” and “Other accounts payable” captions, as applicable. As of December 31, 2021, the offsetting balances of foreign exchange transactions to be delivered or received amount to \$99 and \$99, respectively (\$153 and \$73 in 2020), (see notes 11 and 19).

(7) Investment securities

As of December 31, 2021 and 2020, investments in securities by classification and maturity date (non restricted and restricted) are analyzed on the next page.

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| Trading securities | One year | From 1 to 3 years | More than 3 years | Total 2021 | Total 2020 |
|--|------------------|------------------------------|------------------------------|-----------------------|-----------------------|
| <i>Non restricted trading securities:</i> | | | | | |
| Governmental: | | | | | |
| CETES | \$ 48 | - | - | 48 | 49 |
| BPAS T | 95 | 30 | - | 125 | - |
| UDIBONOS | 10 | - | - | 10 | - |
| Subtotal governmental | 153 | 30 | - | 183 | 49 |
| Private: | | | | | |
| Securitized certificates | 89 | - | - | 89 | 1,645 |
| Banking: | | | | | |
| Investment funds | 134 | - | - | 134 | 124 |
| Promissory notes | 115 | - | - | 115 | 3 |
| Cedes | 1,485 | 675 | 3,339 | 5,499 | 3,171 |
| Subtotal banks | 1,734 | 675 | 3,339 | 5,748 | 3,298 |
| Total non-restricted trading securities | 1,976 | 705 | 3,339 | 6,020 | 4,992 |
| <i>Restricted trading securities on repurchase/resell agreement transactions</i> | | | | | |
| Governmental: | | | | | |
| BPA'Is | 43,359 | - | - | 43,359 | 46,997 |
| Bonds LDS | 998 | - | - | 998 | - |
| BPAT's | 3,940 | 8,467 | 10,236 | 22,643 | 22,821 |
| Guarantee BREMS | - | 1,027 | - | 1,027 | 1,027 |
| CBIC | 40 | - | - | 40 | 406 |
| CETES | 16,299 | - | - | 16,299 | 7,880 |
| Subtotal governmental | 64,636 | 9,494 | 10,236 | 84,366 | 79,131 |
| Deposit Certificates | 8,369 | 2,065 | 932 | 11,366 | 14,332 |
| Banking: | | | | | |
| Promissory notes | 1,351 | - | - | 1,351 | 1,337 |
| Securitized certificates | - | - | - | - | 600 |
| Subtotal Banking | 1,351 | - | - | 1,351 | 1,937 |
| Total restricted trading securities | 74,356 | 11,559 | 11,168 | 97,083 | 95,400 |
| Subtotal unrestricted and restricted securities | 76,332 | 12,264 | 14,507 | 103,103 | 100,392 |
| Restricted value date transactions: | | | | | |
| Purchases ⁽¹⁾ | - | - | - | - | 3,037 |
| Sales ⁽²⁾ | - | - | - | - | (6,443) |
| Total trading securities | \$ 76,332 | 12,264 | 14,507 | 103,103 | 96,986 |

See details of ⁽¹⁾ and ⁽²⁾ on the next page.

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(1) Purchases at value date as of December 31, 2020, are integrated as shown below:

| Security | | 2020 | | Book Value |
|----------|----|---------------------|-------------------------------|------------|
| | | Cost of acquisition | Valuation increase (decrease) | |
| BEPIS | \$ | 2,028 | - | 2,028 |
| BEPAST | | 1,009 | - | 1,009 |
| | \$ | 3,037 | - | 3,037 |

(2) Value dates sales as of December 31, 2020, are integrated as follows:

| Security | | 2020 | | Book Value |
|----------|----|------------------|-------------------------------|------------|
| | | Acquisition Cost | Valuation Increase (decrease) | |
| BPA'Is | \$ | (6,398) | 5 | (6,393) |
| CBIC | | (50) | - | (50) |
| | \$ | (6,448) | 5 | (6,443) |

As of December 31, 2021 and 2020, held-to-maturity securities are integrated as mentioned below:

Held-to-maturity Securities:

| | One year | From 1 to 3 years | More than 3 years | Total 2021 | Total 2020 |
|---------------------------|----------|-------------------|-------------------|------------|------------|
| Securitized certificates: | | | | | |
| Unrestricted | \$ - | - | 217 | 217 | 217 |

As of December 31, 2021 and 2020, bank promissory notes are integrated as mentioned below:

Non restricted trading securities:

| | 2021 | | |
|---------------|--------|-------|-------------|
| | Amount | Rate | Term (days) |
| IBANOBRA22051 | \$ 11 | 5.10% | 31 |
| IBCSFB22054 | 104 | 5.44% | 34 |
| | \$ 115 | | |

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Restricted trading securities:

| | 2020 | | |
|---------------|--------|-------|-------------|
| | Amount | Rate | Term (days) |
| IBACMEXT21114 | \$ 3 | 4.79% | 77 |

Restricted trading securities:

| | 2021 | | |
|---------------|----------|-------|-------------|
| | Amount | Rate | Term (days) |
| IBANOBRA22051 | \$ 252 | 5.10% | 31 |
| IBANOBRA22051 | 119 | 5.10% | 31 |
| IBANOBRA22102 | 509 | 5.13% | 67 |
| ISHF22245 | 41 | 5.08% | 168 |
| ISHF22245 | 430 | 5.08% | 168 |
| | \$ 1,351 | | |

Restricted trading securities:

| | 2020 | | |
|---------------|----------|-------|-------------|
| | Amount | Rate | Term (days) |
| IBANOBRA21065 | \$ 509 | 4.34% | 43 |
| IBACMEXT21114 | 563 | 4.80% | 77 |
| IBANOBRA21331 | 265 | 4.53% | 228 |
| | \$ 1,337 | | |

Issuers above 5% of net capital-

As of December 31, 2021 and 2020, investments in a unique issuer of non-governmental debt securities above 5% of the Bank's net capital are as follows:

| 2021 | Amount | Rate | Term |
|------------------------------|----------|-------|------------|
| Banco de Comercio Exterior | \$ 1,291 | 5.65% | 1,329 days |
| Banobras | 730 | 5.62% | 727 days |
| Nacional Financiera | 739 | 5.67% | 958 days |
| Sociedad Hipotecaria Federal | 2,148 | 5.66% | 1,156 days |
| | \$ 4,908 | | |

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| 2020 | Amount | Rate | Term |
|-------------------------------------|----------|-------|----------|
| FEFA | \$ 1,584 | 4.70% | 459 days |
| Banco Nacional de Obras y Servicios | 2,135 | 3.83% | 331 days |
| Santander | 554 | 4.47% | 38 days |
| | \$ 4,273 | | |

(8) Repurchase/resell agreement transactions -

As of December 31, 2021 and 2020, debtor and creditor balances in repurchase/resell agreements by type of securities are integrated as follows:

| | Debtors | | Creditors | |
|--|-----------------|--------------|---------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| Governmental: | | | | |
| CBIC | \$ - | - | 39 | 404 |
| BPAT's | 11,010 | 16,950 | 22,281 | 22,528 |
| CETES | 2,369 | 5,405 | 16,162 | 7,822 |
| BPA'Is | 59,464 | 34,867 | 42,754 | 45,550 |
| Bonds LDS | - | 452 | 998 | - |
| Banking: | | | | |
| Securitized certificates | - | - | - | 600 |
| Private: | | | | |
| Promissory notes | - | - | 1,354 | 1,337 |
| Deposit certificates | - | - | 11,370 | 14,334 |
| <i>Collaterals received and sold or pledged on repurchase/resell agreement transactions:</i> | | | | |
| Governmental: | | | | |
| BEPAS T | (8,254) | (11,599) | - | - |
| CETES | (2,369) | (5,403) | - | - |
| BEPIS | (54,947) | (34,787) | - | - |
| Bondes | - | (452) | - | - |
| Total | \$ 7,273 | 5,433 | 94,958 | 92,575 |

As of December 31, 2021, the average term of repurchase/resell agreement transactions carried out by the Bank acting as a purchaser and a buyer, was 9 and 21 days, respectively. As of December 31, 2020, such terms were 7 and 42 days, respectively.

Interest income for the years ended December 31, 2021 and 2020, amounted to \$2,322 and \$2,865 respectively, which were registered in the statement of income under "Interest income", while the interest expense which registered in the heading "Interest expense" for the years ended December 31, 2021 and 2020, amounted to \$6,876 and \$6,893 respectively (see note 25(b)).

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(9) Hedging and trading derivative financial instruments-

Derivative financial instruments are used by the Bank as an important management tools in order to control market risk, which is derived from loan portfolio and deposit funding transactions, as well as to reduce the funding cost.

As of December 31, 2021 and 2020, the valuation of hedging and trading derivatives is integrated as follows:

| | Position 2021 | | | Position 2020 | | |
|--|---------------|-------------|------------|---------------|--------------|--------------|
| | Assets | Liabilities | Net | Assets | Liabilities | Net |
| Total interest rate trading derivatives | \$ 37 | (10) | 27 | 162 | (258) | (96) |
| Hedging derivatives: | | | | | | |
| Interest rate swaps of cash flow | \$ 197 | - | 197 | - | (34) | (34) |
| Interest rate swaps at fair value ⁽¹⁾ | 125 | (45) | 80 | - | (233) | (233) |
| Total hedging derivatives | \$ 322 | (45) | 277 | - | (267) | (267) |

Hedging and trading derivatives that are carried out by the Bank, correspond to cross currency swaps, interest rate swaps, which do not trigger additional obligations to the different components for this kind of transactions.

As of December 31, 2021 and 2020, cash guarantees were granted to counterparties in respect of transactions in derivative financial instruments that are carried out in recognized markets for \$35 and \$546 respectively, which are included under the "Margin Accounts" item in the balance sheet.,

As of December 31, 2021, counterparties' guarantees were received from the interest rate swaps contracts for \$178. During 2020 guarantees not were received.

Hedging derivatives used by the Bank are mainly fair value hedges through interest rate swaps; such transactions represent a hedging exposure to the changes in the fair value of recognized assets or liabilities, or an identified portion of such assets and liabilities, which is attributable to a particular risk that can affect the Bank's results.

⁽¹⁾ As of December 31, 2021 and 2020, it includes 8 and 23 million dollars of liability and asset position, respectively, of a Cross currency swap ("CCS"), which valued at the exchange rate of said dates amount to \$161 and \$468, respectively. The fair value of the CCS as of said dates is (\$4) and (\$3), respectively.

The hedging strategy is determined by the Bank's Assets and Liabilities Committee, based on the market conditions. Hedges are used to reduce risks related to foreign exchange movements, using foreign currency swaps, as well as interest rate variation risk, using swap transactions and cap options. The objective of the previously mentioned is to fix the risk exposure rates which are intended to be covered by the Bank, ensuring compliance with the derived obligations. The main strategy is to ensure future income and expenses that are intended to be maximized for the Bank's benefit.

Hedging derivatives may be fully or partially reclassified due to inefficiencies in hedging, maturity date or sell of the primary position.

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The margin economic value and sensibility derived from changes in interest rates are carefully analyzed and monitored by the Bank. There are certain limits for such indicators and depending on the market conditions and the Bank's global strategy, tactical decisions are made, which are adequate to reduce risks. In order to maintain the market risk within the required limits and for market strategy purposes, the Bank has covered some assets and liabilities positions on an individual and global basis.

The Bank manages the inherent risks of such contracts through the Integral Risks Management Unit ("UAIR", by its acronym in Spanish), which presents on a regular basis to the Risk Committee a report about the monitoring of hedging effectiveness. This Committee validates such effectiveness and participates and the decision-making process, as applicable.

As of December 31, 2021 and 2020, derivatives for trading purposes are integrated as follows:

Trading Swaps:

| | Amount and/or notional value | Average rate | | Valuation | Maturity |
|------------------|---------------------------------|--------------|-------------|-----------|----------------------------|
| | | Assets | Liabilities | | |
| Year 2021 | | | | | |
| IRS Swaps | \$ 99,400 | 5.04% | 5.54% | \$ 27 | 2022 a 2023 ⁽¹⁾ |
| Year 2020 | | | | | |
| IRS Swaps | \$ 50,760 | 7.56% | 6.55% | \$ (96) | 2020 a 2024 ⁽¹⁾ |

⁽¹⁾ Maturity dates of trading swaps as of December 31, 2021 and 2020, are shown as follows:

| Year | Amount and/or notional value | |
|------|------------------------------|-----------|
| | 2021 | 2020 |
| 2021 | \$ - | \$ 1,600 |
| 2022 | 98,800 | - |
| 2023 | 600 | 1,030 |
| 2024 | - | 48,130 |
| | \$ 99,400 | \$ 50,760 |

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As of December 31, 2021, the Bank has the following derivative financial instruments contracts:

Hedging type: fair value hedging

| <u>Hedging description</u> | <u>Covered risk</u> | <u>Hedging instrument</u> | <u>Maximum hedging maturity year</u> | <u>Fair value of hedging instrument</u> | <u>Recognized amount in the net income</u> | <u>Reclassified amount from stockholder's equity to P&L</u> | <u>Caption of the Statement of income where the hedging is recorded</u> | <u>Caption of the balance sheet where the hedging is recorded</u> | <u>Ineffectiveness recognized in P&L</u> |
|---|------------------------------|---------------------------|--------------------------------------|---|--|---|---|---|--|
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2028 | (3) | 7 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2023 | - | 5 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2022 | - | 1 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2025 | (2) | 6 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2025 | (1) | - | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2023 | (6) | - | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2024 | (1) | 5 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2025 | (1) | 2 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2028 | (5) | 7 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2027 | (1) | 2 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2027 | (1) | 1 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2026 | (1) | 1 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2028 | (1) | 1 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2023 | (6) | 8 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2032 | (9) | 5 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | CCS Swap ⁽²⁾ | 2022 | (4) | - | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2026 | (3) | 8 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2032 | 125 | 14 | - | Interest income | Loan Portfolio | - |

⁽¹⁾ IRS — Interest Rate Swaps.

⁽²⁾ CCS Swap — Cross currency swaps.

(Continued)

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Hedging type: cash flow hedging

| <u>Hedging description</u> | <u>Covered risk</u> | <u>Hedging Instrument</u> | <u>Maximum hedging maturity year</u> | <u>Fair value of hedging instrument</u> | <u>Recognized amount in the net income</u> | <u>Amount reclassified from capital to P&L</u> | <u>Caption of the Statement of income where the hedging is recorded</u> | <u>Caption of the balance sheet where the hedging is recorded</u> | <u>Ineffectiveness recognized in P&L</u> |
|--|----------------------|---------------------------|--------------------------------------|---|--|--|---|---|--|
| Deposit funding hedging in Mexican Pesos | TIIE rate of deposit | IRS Swap ⁽¹⁾ | 2022 | 2 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican Pesos | TIIE rate of deposit | IRS Swap ⁽¹⁾ | 2023 | 10 | - | 1 | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican Pesos | TIIE rate of deposit | IRS Swap ⁽¹⁾ | 2023 | 17 | - | 1 | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican Pesos | TIIE rate of deposit | IRS Swap ⁽¹⁾ | 2023 | 9 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican Pesos | TIIE rate of deposit | IRS Swap ⁽¹⁾ | 2023 | 18 | - | 1 | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican Pesos | TIIE rate of deposit | IRS Swap ⁽¹⁾ | 2023 | 9 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican Pesos | TIIE rate of deposit | IRS Swap ⁽¹⁾ | 2023 | 18 | - | 1 | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican Pesos | TIIE rate of deposit | IRS Swap ⁽¹⁾ | 2023 | 17 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican Pesos | TIIE rate of deposit | IRS Swap ⁽¹⁾ | 2023 | 11 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican Pesos | TIIE rate of deposit | IRS Swap ⁽¹⁾ | 2024 | 21 | - | 1 | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican Pesos | TIIE rate of deposit | IRS Swap ⁽¹⁾ | 2024 | 19 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican Pesos | TIIE rate of deposit | IRS Swap ⁽¹⁾ | 2024 | 26 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican Pesos | TIIE rate of deposit | IRS Swap ⁽¹⁾ | 2024 | 19 | - | - | Interest expense | Deposit funding | - |

⁽¹⁾ IRS — Interest Rate Swaps.

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As of December 31, 2020, the Bank has concluded contracts as follows:

Hedging type: fair value hedging

| <u>Hedging description</u> | <u>Covered risk</u> | <u>Hedging instrument</u> | <u>Maximum hedging maturity year</u> | <u>Fair value of hedging instrument</u> | <u>Recognized amount in the net income</u> | <u>Reclassified amount from stockholder's equity to P&L</u> | <u>Caption of the Statement of income where the hedging is recorded</u> | <u>Caption of the balance sheet where the hedging is recorded</u> | <u>Ineffectiveness recognized in P&L</u> |
|---|------------------------------|---------------------------|--------------------------------------|---|--|---|---|---|--|
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2028 | (14) | 8 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2023 | (8) | 4 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2022 | (2) | 1 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2025 | (15) | 4 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2025 | (5) | - | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2023 | (11) | - | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2024 | (12) | 4 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2025 | (5) | 1 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2028 | (27) | 5 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2027 | (7) | 1 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2027 | (5) | - | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2026 | (3) | - | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2028 | (5) | - | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2026 | (25) | 7 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2032 | (25) | 3 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | CCS Swap ⁽²⁾ | 2022 | (3) | 21 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2026 | (22) | 5 | - | Interest income | Loan Portfolio | - |
| Credit hedging in Mexican pesos of fixed rate | Loan portfolio interest rate | IRS Swap ⁽¹⁾ | 2032 | (39) | 3 | - | Interest income | Loan Portfolio | - |

⁽¹⁾ IRS — Interest Rate Swaps.

⁽²⁾ CCS Swap — Cross currency swaps.

(Continued)

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Hedging type: cash flow hedging

| Hedging description | Covered risk | Hedging Instrument | Maximum hedging maturity year | Fair value of hedging instrument | Recognized amount in the net income | Amount reclassified from capital to P&L | Caption of the Statement of income where the hedging is recorded | Caption of the balance sheet where the hedging is recorded | Ineffectiveness recognized in P&L |
|--|------------------------------|-------------------------|-------------------------------|----------------------------------|-------------------------------------|---|--|--|-----------------------------------|
| Deposit funding hedging in Mexican pesos | TIIE rate of deposit funding | IRS Swap ⁽¹⁾ | 2022 | 1 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican pesos | TIIE rate of deposit funding | IRS Swap ⁽¹⁾ | 2023 | 3 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican pesos | TIIE rate of deposit funding | IRS Swap ⁽¹⁾ | 2023 | 4 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican pesos | TIIE rate of deposit funding | IRS Swap ⁽¹⁾ | 2023 | 2 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican pesos | TIIE rate of deposit funding | IRS Swap ⁽¹⁾ | 2023 | 4 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican pesos | TIIE rate of deposit funding | IRS Swap ⁽¹⁾ | 2023 | 2 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican pesos | TIIE rate of deposit funding | IRS Swap ⁽¹⁾ | 2023 | 4 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican pesos | TIIE rate of deposit funding | IRS Swap ⁽¹⁾ | 2023 | 3 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican pesos | TIIE rate of deposit funding | IRS Swap ⁽¹⁾ | 2023 | 2 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican pesos | TIIE rate of deposit funding | IRS Swap ⁽¹⁾ | 2024 | 3 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican pesos | TIIE rate of deposit funding | IRS Swap ⁽¹⁾ | 2024 | 2 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican pesos | TIIE rate of deposit funding | IRS Swap ⁽¹⁾ | 2024 | 2 | - | - | Interest expense | Deposit funding | - |
| Deposit funding hedging in Mexican pesos | TIIE rate of deposit funding | IRS Swap ⁽¹⁾ | 2024 | 2 | - | - | Interest expense | Deposit funding | - |

⁽¹⁾ IRS — Interest Rate Swaps.

Option. As of December 31, 2021 and 2020, this instrument is designated as hedging to be used from a TIIE value of 10%, so the change in the fair value of the option has been fully reflected in the financial year's results, the balance pending accrual amounts to \$.01 on both dates.

For the years ended December 31, 2021 and 2020, the effect recognized in results due to the ineffectiveness of hedging was not significant.

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(10) Loan Portfolio

(a) Loan Portfolio Analysis -

The classification of current and past-due loan portfolio by type of currency as of December 31, 2021 and 2020, is as mentioned below:

| | Current | | | Past-due | | |
|---------------------------------------|----------------------|--|--------|----------------------|--|-------|
| | National currency | Translated foreign currency ⁽¹⁾ | Total | National currency | Translated foreign currency ⁽¹⁾ | Total |
| 2021 | | | | | | |
| Commercial loans: | | | | | | |
| Business or commercial activity | \$ 29,162 | 935 | 30,097 | 858 | - | 858 |
| Financial entities | 500 | - | 500 | - | - | - |
| Government entities | 2,313 | - | 2,313 | - | - | - |
| Consumer Loans | 8,077 | - | 8,077 | 259 | - | 259 |
| Mortgage loans: | | | | | | |
| Medium-income housing and residential | 9,125 | - | 9,125 | 623 | - | 623 |
| Low-income housing | 11 | - | 11 | - | - | - |
| | \$ 49,188 | 935 | 50,123 | 1,740 | - | 1,740 |
| 2020 | | | | | | |
| Commercial loans: | | | | | | |
| Business or commercial activity | \$ 27,420 | 991 | 28,411 | 789 | - | 789 |
| Financial entities | 592 | - | 592 | - | - | - |
| Government entities | 2,870 | - | 2,870 | - | - | - |
| Consumer Loans | 7,873 | - | 7,873 | 282 | - | 282 |
| Mortgage loans: | | | | | | |
| Medium-income housing and residential | 7,890 | - | 7,890 | 478 | - | 478 |
| Low-income housing | 12 | - | 12 | - | - | - |
| | \$ 46,657 | 991 | 47,648 | 1,549 | - | 1,549 |

⁽¹⁾ As of December 31, 2021 and 2020, the Bank's current and past due loan portfolio includes \$46 and \$50 million US dollars, respectively.

As of December 31, 2021, the current and past-due loan portfolio includes accrued and past-due interests of \$257 and \$48, respectively. As of December 31, 2020, it amounted to \$280 and \$46, respectively.

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(b) Loan portfolio classification by economic sector -

The concentration percentage of the Bank's loan portfolio by the borrowers' activity as of December 31, 2021 and 2020, is integrated as follows:

| | 2021 | | 2020 | |
|---|---------|----------|---------|----------|
| | Current | Past-due | Current | Past-due |
| Agriculture | 1% | - | - | - |
| Commerce | 19% | 1% | 20% | 1% |
| Construction | 6% | - | 7% | - |
| Electricity and water | 12% | - | 9% | - |
| Municipal, State and Federal Government | 4% | - | 6% | - |
| Manufacturing | 3% | - | 3% | - |
| Mining and oil | 3% | - | 3% | - |
| Services | 8% | - | 14% | 1% |
| Financial entities | 5% | - | 6% | - |
| Transportation and communication | 2% | - | 3% | - |
| Consumer | 16% | 1% | 10% | - |
| Residential Mortgage | 18% | 1% | 16% | 1% |
| | 97% | 3% | 97% | 3% |
| | 100% | | 100% | |

(c) Classification by geographic zone-

The classification of the Bank's current and past-due loan portfolio by geographical area as of December 31, 2021 and 2020 is as shown below:

| | 2021 | | 2020 | |
|---------------------------|-----------|----------|---------|----------|
| | Current | Past-due | Current | Past-due |
| Centre ⁽¹⁾ | \$ 5,244 | 478 | 5,079 | 474 |
| Nuevo Leon ⁽²⁾ | 30,525 | 538 | 28,429 | 288 |
| North ⁽³⁾ | 6,861 | 263 | 7,238 | 252 |
| Others ⁽⁴⁾ | 7,493 | 461 | 6,902 | 535 |
| | 50,123 | 1,740 | 47,648 | 1,549 |
| | \$ 51,863 | | 49,197 | |

(1) Includes Mexico City and State of Mexico.

(2) Mainly includes Monterrey and its metropolitan area.

(3) Includes Tamaulipas, Coahuila, Durango, Sinaloa, Baja California, Sonora and Chihuahua.

(4) Includes Aguascalientes, Colima, Guanajuato, Guerrero, Hidalgo, Jalisco, Michoacán, Morelos, Nayarit, Puebla, Querétaro, San Luis Potosí and Veracruz.

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(d) Loans granted to governmental entities -

The balances of the loan portfolio to government entities as of December 31, 2021 and 2020, are made up of loans granted to states and municipalities for \$2,317 (\$2,313 net of accrued interest) and \$2,892 (\$2,870 net of accrual interest), respectively.

As of December 31, 2021 and 2020, the loans granted to government entities include financing to various states and municipalities of the Mexican Republic, which have maturities of 1 to 20 years. As of December 31, 2021 and 2020, 39% and 46%, respectively, of these credits are guaranteed by the corresponding federal participations.

(e) Additional loan portfolio information

Discount loans funded by development banks:

Mexican government has established certain funds to encourage the development of specific activities, such as: agriculture, industry and tourism. All this under the administration of the Central Bank, Nacional Financiera, S. N. C. ("NAFIN", by its acronym in Spanish), National Bank of Foreign Trade ("Bancomext", by its acronym in Spanish) and Instituted Trusts Related to Agriculture ("FIRA", by its acronym in Spanish), in order to rediscount funding loans. As of December 31, 2021 and 2020, the loans granted under these programs amounted to \$6,857 and \$6,447, respectively, and their corresponding liability is included under the "Bank and other borrowings" caption (see note 18).

(f) Maturity of current loan portfolio related to financial leasing transactions-

As of December 31, 2021, the minimum payments to collect in the future (for the next 5 years) related to financial leasing contracts, which are presented in the current loan portfolio, are as shown below:

| Maturity | Balance loan portfolio | Interests to be accrued | Total |
|-----------------|-----------------------------------|------------------------------------|--------------|
| 2022 | \$ 404 | (230) | 174 |
| 2023 | 612 | (107) | 505 |
| 2024 | 743 | (42) | 701 |
| 2025 | 345 | (12) | 333 |
| 2026 onwards | 150 | (2) | 148 |
| | \$ 2,254 | (393) | 1,861 |

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Restructured and renewed loans:

Total amounts of restructured loans by type of portfolio as of December 31, 2021 and 2020, are as mentioned below:

| | Restructures | |
|---------------------------------|-----------------|--------------|
| | 2021 | 2020 |
| Current loan portfolio: | | |
| Commercial loans: | | |
| Business or commercial activity | \$ 5,506 | 3,042 |
| Government entities | 130 | 139 |
| Consumer loans | 80 | 11 |
| Mortgage loans | 490 | 265 |
| | 6,206 | 3,457 |
| Past-due loan portfolio: | | |
| Commercial loans: | | |
| Business or commercial activity | 329 | 235 |
| Consumer loans | 69 | 50 |
| Mortgage loans | 171 | 129 |
| | 569 | 414 |
| Total restructures | \$ 6,775 | 3,871 |

During 2021, 343 commercial loans, 160 residential mortgage loans and 1,282 consumer loans were restructured for a total amount of \$3,953 in which some of the following concepts were modified: interest rates, terms, guarantees or write-offs, reductions and subsidies were granted. In 2020, 736 commercial loans, 98 residential mortgage loans and 429 consumer loans were restructured for a total amount of \$2,172 in which some of the following concepts were modified: interest rates, terms, guarantees or write-offs, reductions and subsidies were granted. During 2021 and 2020 for restructured commercial loans, the Bank secured additional mortgage guarantees for \$901 and \$1,950, respectively.

During 2021 and 2020, interests were capitalized to their respective loans for \$2, in both years.

During 2021 and 2020 there were no credit renewals.

Risk concentration ⁽¹⁾:

As of December 31, 2021, the balance of the Bank's three major debtors representing common risk amounts to \$5,445 (\$4,284 in 2020). There is financing to 10 borrowers or common risk groups (7 borrowers in 2020), whose amounts exceed each 10% of the Bank's basic capital; the balance of such indebtedness is \$14,326 (\$12,132 in 2020) and such represent a whole 235% (201% in 2020) of the basic capital. Currently, none of these borrowers are secured by federal backups.

⁽¹⁾ The established policies and procedures to determine the credit risk concentration, is described in the note 27 "Risk management".

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Past-due loan portfolio:

As of December 31, 2021 and 2020, the past-due loan portfolio integration is presented as follows, based on the term that was considered as such:

| | 2021 | | | | |
|---------------------------------------|------------------|--------------------|-----------------|----------------------|-------|
| | 1 to 180 days | 181 to 365 days | 1 to 2 Years | More than 2 years | Total |
| Commercial loans: | | | | | |
| Business or commercial activity | \$ 64 | 422 | 302 | 70 | 858 |
| Consumer loans | 225 | 34 | - | - | 259 |
| Residential mortgage loans: | | | | | |
| Medium-income housing and residential | 199 | 98 | 159 | 167 | 623 |
| | \$ 488 | 554 | 461 | 237 | 1,740 |

| | 2020 | | | | |
|---------------------------------------|------------------|--------------------|-----------------|----------------------|-------|
| | 1 to 180 days | 181 to 365 days | 1 to 2 years | More than 2 years | Total |
| Commercial loans: | | | | | |
| Business or commercial activity | \$ 334 | 133 | 275 | 47 | 789 |
| Consumer loans | 258 | 22 | 2 | - | 282 |
| Residential mortgage loans: | | | | | |
| Medium-income housing and residential | 177 | 75 | 190 | 36 | 478 |
| | \$ 769 | 230 | 467 | 83 | 1,549 |

Following there is an analysis of the past-due loan portfolio movements for the years ended December 31, 2021 and 2020.

| | 2021 | 2020 |
|--|----------|---------|
| Balance at the beginning of year | \$ 1,549 | 1,510 |
| Transfers between current and past-due loan portfolio ⁽¹⁾ | 1,617 | 1,519 |
| Settlements | (405) | (365) |
| Write-offs | (1,021) | (1,115) |
| Balance at year end | \$ 1,740 | 1,549 |

See explanation of ⁽¹⁾ on the next page.

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(1) During 2021, past-due loans that were restructured related to commercial, consumer and residential mortgage amount to \$249, \$113, and \$140 respectively, in which some of the following concepts were modified: interest rates, terms, guarantees or write-offs, reductions and subsidies were granted (commercial, consumer and residential mortgage loans for \$110, \$57, and \$123, respectively, in 2020).

During 2021, some loans were restructured and renewed that remained in current loan portfolio related to commercial, consumer and residential mortgage loans, for \$3,173, \$49 and \$199 respectively, in which some of the following concepts were modified: interest rates, terms, guarantees or write-offs, reductions and subsidies were granted (commercial, consumer and residential mortgage loans for \$1,686, \$7 and \$102, respectively, in 2020).

During 2021 and 2020, there were no restructurings or renewals that were transferred to past-due loan portfolio to restructuring or renewal.

During 2021 and 2020, there were no restructured or renewed consolidated commercial loans transferred to the past-due portfolio.

During 2021 and 2020, there were not modified loans that had been deemed as restructures.

As of December 31, 2021 and 2020, the nominal interests corresponding to past-due loan portfolio, which were recognized in memorandum accounts, amounted to \$104 and \$92, respectively.

Loan portfolio acquisition to ION Financiera, S. A. P. I. de C. V., SOFOM, E. R. ("ION")

The Bank entered into a master contract of onerous assignment of residential mortgage loans with ION, where the Bank acquired 90% of the collection rights over the residential mortgage loan portfolio related to the purchases made. ION owns 10% of the rights of these loans, if only, both parties engage to affect the collection rights derived from the loans in the proportion that each one corresponds to the Trust number 73935, which were constituted with the Bank (Trust area), as trustee. Having the trust as main aim the management and collection rights of payment appropriations derived from such loans.

As of December 31, 2021 and 2020, the unpaid balances of the loan portfolio for purchases made with ION amounted to \$110 and \$142, respectively.

Sale of portfolio to Factoraje Afirmé, S. A. de C. V. SOFOM, ER, Afirmé Grupo Financiero ("Factoraje Afirmé")

On January 31, 2020, the Bank sold a non-performing mortgage loan portfolio to its related party Factoraje Afirmé. The sale was made by public auction. The amount of the transaction amounted to \$73 which was paid in cash.

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(g) Allowance for loan losses-

As explained in note 3(j), the Bank creates allowance for loan losses in order to cover the risks associated with the recovery of the loan portfolio.

Parameters are weighted over each one of the loan portfolios. The exposure at default that is shown for credit risk includes loan commitments.

The results over the Bank's rated loan portfolio and the allowance for loan losses as of December 31, 2021 and 2020, are shown as follows:

| Grade of risk | Rated loan portfolio 2021 | | | | Total |
|---|---------------------------------------|--------------|----------------------|-----------|---------------|
| | Commercial ⁽¹⁾ | Consumer | Residential mortgage | | |
| A-Minimum | \$ 25,429 | 5,128 | 7,882 | | 38,439 |
| B-Low | 5,650 | 1,721 | 580 | | 7,951 |
| C-Medium ⁽²⁾ | 1,714 | 756 | 740 | | 3,210 |
| D-High ⁽²⁾ | 2,331 | 342 | 420 | | 3,093 |
| E-Irrecoverable ⁽²⁾ | 28 | 390 | 136 | | 554 |
| Total rated loan portfolio | \$ 35,152 | 8,337 | 9,758 | | 53,247 |
| | Allowance for loan losses 2021 | | | | |
| A-Minimum | \$ 178 | 80 | 14 | | 272 |
| B-Low | 142 | 78 | 7 | | 227 |
| C-Medium | 134 | 85 | 48 | | 267 |
| D-High | 920 | 101 | 99 | | 1,120 |
| E-Irrecoverable | 21 | 262 | 69 | | 352 |
| Allowance for loan losses subtotal | 1,395 | 606 | 237 | | 2,238 |
| Additional allowances identified ⁽³⁾ | | | | | 44 |
| Total allowance for loan losses | | | | \$ | 2,282 |

See explanations ⁽¹⁾ to ⁽⁴⁾ below:

- (1) Includes commercial credits with business activity, financial entities, government, guarantees granted and irrevocable credit commitments (see more detail in "Additional information on the rating loan portfolio" in note 27 of "Risk management").
- (2) Includes "Non-performing loans" see more detail in "Additional information on the rating loan portfolio" in note 27 of "Risk management").
- (3) They include \$26 for interest due, and \$18 for operating risks.
- (4) Includes \$26 for past due interest whose 100% reserve is included as part of the reserve for portfolio rating.

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| Grade of risk | Rated loan portfolio 2020 | | | |
|---|---------------------------------------|--------------|----------------------|---------------|
| | Commercial ⁽¹⁾ | Consumer | Residential Mortgage | Total |
| A-Minimum | \$ 27,729 | 4,611 | 6,519 | 38,859 |
| B-Low | 4,434 | 1,839 | 701 | 6,974 |
| C-Medium ⁽²⁾ | 573 | 916 | 633 | 2,122 |
| D-High ⁽²⁾ | 980 | 380 | 431 | 1,791 |
| E-Irrecoverable ⁽²⁾ | 49 | 409 | 96 | 554 |
| Total rated loan portfolio | \$ 33,765 | 8,155 | 8,380 | 50,300 |
| | Allowance for loan losses 2020 | | | |
| A-Minimum | \$ 186 | 71 | 12 | 269 |
| B-Low | 104 | 84 | 9 | 197 |
| C-Medium | 48 | 100 | 35 | 183 |
| D-High | 384 | 122 | 90 | 596 |
| E-Irrecoverable | 43 | 276 | 49 | 368 |
| Allowance for loan losses subtotal ⁽⁴⁾ | 765 | 653 | 195 | 1,613 |
| Additional allowances identified ⁽³⁾ | | | | 493 |
| Total allowance for loan losses | | | \$ | 2,106 |

See explanations ⁽¹⁾ to ⁽⁴⁾ below:

- (1) Includes commercial loans related to business or commercial activity, financial entities, government entities, guarantees granted and irrevocable loan commitments (for more details refer to "Additional information on the rating loan portfolio" in note 27 "Risk management").
- (2) Includes "Non-performing loans" (for more details refer to "Additional information on the rating loan portfolio" in note 27 "Risk management").
- (3) Includes \$23 of past-due interests, \$14 of operational risks and \$456 for additional potential credit risks as a result of the impact on the economy caused by the COVID-19 pandemic. On June 30 and August 4, 2020, the Banking Commission was informed of the constitution of additional reserves derived from the effects of the pandemic caused by COVID-19, which were approved by said Commission by official letter number P512/2020 on December 15, 2020. The bases used for said reserves include the Banking Commission's reserve rating methodology, taking into consideration the stress scenarios and methodology based on the capital adequacy evaluation exercise approved by the Banking Commission and the Bank, which allows evaluating whether the necessary capital is available to face the exposed risks, including those under adverse macroeconomic scenarios.
- (4) Includes \$23 for past due interest whose 100% reserve is included as part of the reserve for portfolio rating.

(Continued)

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Allowance for loan losses' movements for the years ended December 31, 2021 and 2020, are analyzed below:

| | 2021 | 2020 |
|--|-----------------|--------------|
| Balance at the beginning of the year | \$ 2,106 | 1,533 |
| Allowances with debits to earnings | 1,666 | 1,755 |
| Allowance's releases | (458) | (35) |
| Applications for write-offs of current and past-due loan portfolio | (1,032) | (1,147) |
| Balance at year end | \$ 2,282 | 2,106 |

(11) Other accounts receivable -

As of December 31, 2021 and 2020, the other accounts receivable caption is integrated as follows:

| | 2021 | 2020 |
|---|----------|-------|
| Debtors for clearing accounts (restricted) ⁽¹⁾ | \$ - | 6,448 |
| Loans to Bank's employees | 360 | 277 |
| 24 and 48-hours FX transactions (note 6) | 99 | 153 |
| Endowment of ATMs | 146 | 125 |
| Fiduciary commissions | 40 | 81 |
| Prosa daily collection | 339 | 174 |
| Other operations pending settlement | 304 | 272 |
| Investment client branches | 126 | 22 |
| ION portfolio acquisition | 72 | 39 |
| Benefit taxes | 66 | 66 |
| Correspondents | 64 | 58 |
| Carry over payments | 47 | 34 |
| Parties related | 34 | 26 |
| Other accounts receivable | 264 | 285 |
| | 1,961 | 8,060 |
| Reserve for doubtful accounts | (133) | (105) |
| | \$ 1,828 | 7,955 |

⁽¹⁾ Registered at the date of agreement for securities sales operations at value date, same as were settled on January 4, 2021, (see note 7).

(Continued)

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(12) Foreclosed assets, net-

As of December 31, 2021 and 2020, foreclosed assets by type of goods are as mentioned below:

| | 2021 | 2020 |
|-------------------------------|--------|------|
| Lands | \$ 20 | 26 |
| Condominiums | 26 | 25 |
| Commercial establishments | 148 | 149 |
| Industrial plants | 28 | 28 |
| Transportation equipment | 1 | 2 |
| Houses | 88 | 33 |
| Real estate promised for sale | 12 | 6 |
| Others | 1 | 1 |
| | 324 | 270 |
| Reserves for impairment | (75) | (60) |
| | \$ 249 | 210 |

(13) Premises, furniture and equipment, net-

As of December 31st, 2021 and 2020, premises, furniture and equipment are analyzed as shown below:

| | 2021 | 2020 | Annual rate of depreciation and amortization |
|---|----------|---------|--|
| Office furniture and equipment | \$ 456 | 382 | 7% |
| Computer equipment | 4,164 | 3,359 | 20 and 30% |
| Point-of-sale terminals | 217 | 182 | 17% |
| ATMs | 721 | 743 | 10% |
| Transportation equipment | 29 | 28 | 25% |
| Leasehold improvements | 1,221 | 1,191 | 5% to 10% |
| Constructions | 136 | 136 | 5% |
| Others | 1 | 1 | 10% |
| | 6,945 | 6,022 | |
| Accumulated depreciation and amortization | (2,643) | (2,318) | |
| | \$ 4,302 | 3,704 | |

For the years ended December 31, 2021 and 2020, charge to income from depreciation and amortization amounted to \$480 and \$402, respectively.

(Continued)

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| Acquisition cost: | | Furniture and equipment | Technology Equipment⁽¹⁾ | Leasehold improvements⁽²⁾ | Others⁽³⁾ | Total |
|---------------------------|----|------------------------------------|---|---|-----------------------------|--------------|
| December 31, 2019 | \$ | 325 | 3,516 | 1,283 | 28 | 5,152 |
| Additions | | 59 | 1,407 | 188 | 3 | 1,657 |
| Disposals and retirements | | (2) | (639) | (144) | (2) | (787) |
| December 31, 2020 | | 382 | 4,284 | 1,327 | 29 | 6,022 |
| Additions | | 76 | 1,848 | 100 | 5 | 2,029 |
| Disposals and retirements | | (2) | (1,030) | (70) | (4) | (1,106) |
| December 31, 2021 | \$ | 456 | 5,102 | 1,357 | 30 | 6,945 |

| Depreciation: | | Furniture and equipment | Technology Equipment⁽¹⁾ | Leasehold Improvements⁽²⁾ | Others⁽³⁾ | Total |
|---|----|------------------------------------|---|---|-----------------------------|--------------|
| December 31, 2019 | \$ | 161 | 1,389 | 513 | 19 | 2,082 |
| Depreciation | | 19 | 319 | 60 | 4 | 402 |
| Alienations and casualties | | - | (35) | (131) | - | (166) |
| December 31, 2020 | | 180 | 1,673 | 442 | 23 | 2,318 |
| Depreciation | | 24 | 392 | 60 | 4 | 480 |
| Alienations and casualties | | (1) | (106) | (47) | (1) | (155) |
| December 31, 2021 | \$ | 203 | 1,959 | 455 | 26 | 2,643 |
| Carrying value, net: As of December 31, 2021 | \$ | 253 | 3,143 | 902 | 4 | 4,302 |
| Carrying value, net: As of December 31, 2020 | \$ | 202 | 2,611 | 885 | 6 | 3,704 |

Disclaimers:

- (1) Grouped by computer equipment, point-of-sale terminals and ATMs.
- (2) Grouped by leasehold improvements and constructions.
- (3) Grouped by transportation equipment and others.

(Continued)

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Operating Leasing

The Bank, through its subsidiary, has entered into operating lease agreements with several companies of the private sector and individuals in the country, the term of the contracts in force as of December 31, 2021, It is between 1 and 48 months. In 2021 and 2020, income from rental property under operating lease amounted to \$36 and \$39, respectively, which are presented net of the depreciation of said assets in the caption "Other operating income, net" in the statement of income.

As of December 31, 2021 and 2020, the future revenue to be received derived from operating leasing contracts, is as follows:

| Year | Amount | |
|------|--------|------|
| | 2021 | 2020 |
| 2021 | \$ - | 32 |
| 2022 | 15 | 11 |
| 2023 | 8 | 3 |
| 2024 | 3 | 1 |
| 2025 | 1 | - |
| | \$ 27 | 47 |

(14) Other assets-

As of December 31, 2021 and 2020, other assets caption is analyzed as follows:

| | 2021 | 2020 | Annual rate of amortization |
|---|--------|------|-----------------------------|
| Organization costs | \$ 55 | 70 | 5% |
| Pre-operating costs | 3 | 3 | 5% |
| Intangibles ⁽¹⁾ | 93 | 93 | 10% |
| Brand ⁽²⁾ | 15 | 15 | 10% |
| | 166 | 181 | |
| Accumulated amortization | (148) | (79) | |
| | 18 | 102 | |
| Other costs to be amortized ⁽³⁾ | 524 | 472 | |
| Payments and anticipated costs ⁽⁴⁾ | 9 | 5 | |
| | \$ 551 | 579 | |

See explanation of ⁽¹⁾ to ⁽⁴⁾ on the next page.

(Continued)

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- (1) Intangible assets correspond to assets acquired from Financiera Sí, S. A. de C. V. (“Crédito Sí”) and Emprendedores Firme, S. A. de C. V. (“Emprendedores Firme”, formerly Crédito Firme, S. A. de C. V.), (related parties), as mentioned below:

Crédito Sí

This product comprises of intellectual property of methodologies, processes, origination scorings, monitoring and collection of consumer and microcredit loans, which are documented in policies, algorithms and process diagrams; such asset amounted to \$61 and has an indefinite useful life. As mentioned in note 3(o), in case of any impairment indicator, the possible impairment loss is determined. As of December 31, 2021, the Bank has decided to temporarily suspend its efforts in the placement of credits related to the “Crédito Sí” brand, for which 100% of the remaining value of this intangible asset has been reserved, which meant a charge to income for an amount of \$47. As of December 31, 2020, the value of said intangible was \$47.

Emprendedores Firme

- (a) Clients list includes their records and files with an acquisition cost of \$17. This asset is amortized using the straight-line method during its useful definite life, which is 10 years. As of December 31, 2020, this asset was fully amortized.
- (b) This product comprises of intellectual property of methodologies, processes, origination scorings, monitoring and collection of crowd and microcredit loans, which are documented in policies, algorithms and process diagrams; its acquisition cost amounted to \$15 and has an indefinite useful life. As of December 31, 2021, the Bank has decided to temporarily suspend its efforts in the placement of credits related to the “Crédito Firme” brand, for which 100% of the remaining value of this intangible asset has been reserved, which meant a charge to results in the amount of \$12. As of December 31, 2020, the value of said intangible was \$12.
- (2) Brand “Crédito Sí” and the associated legends, property, record and the right of use; its acquisition cost amounted to \$15 and has an indefinite useful life. As of December 31, 2021, the Bank has decided to temporarily suspend its efforts in the placement of loans related to the “Crédito Sí” brand, for which 100% of the remaining value of the brand has been reserved, which meant a charge to results in the amount of \$12. As of December 31, 2020, the value of said brand was \$12.
- (3) As of December 31, 2021 and 2020, mainly includes expenses for loans origination and services paid in advance.
- (4) Mainly represents taxes paid in advance.

For the years ended December 31, 2021 and 2020, amortization recorded in the year's results amounted to \$72 and \$1 respectively, included under the “Administrative and promotion expenses” caption in the statement of income.

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(15) Permanent investments -

As of December 31, 2021 and 2020, permanent investments are integrated as mentioned below:

| | 2021 | 2020 |
|---|-------------|-------------|
| Círculo de Crédito, S. A. de C. V. ("Círculo de Crédito") | \$ 97 | 81 |
| Others | 13 | 12 |
| | \$ 110 | 93 |

On December 2, 2021 and December 18, 2020, Círculo de Crédito declared dividends from retained earnings in the amount of \$10 and \$6, respectively, which were paid to the Bank through bank transfer.

The Bank exercises significant influence over Círculo de Crédito, through a representation on the Board of Directors or equivalent board. Such associated company is valued under the equity method.

For the years ended December 31, 2021 and 2020, the Bank recognized the equity in the results of operations of associates for \$28 and \$24, respectively, in the income statements.

There are no restrictions on permanent investments as of December 31, 2021 and 2020.

(16) Employee benefits -

The cost, obligations and other elements of the Bank's employee obligations in relation to seniority premium and retirement due to termination of employment for reasons different other than restructures, are determined based on computations made by independent actuaries, using the projected unit credit method.

The net cost components for the years ended December 31, 2021 and 2020, are shown on the next page.

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| | | Seniority premium | Compensation | Total 2021 | Total 2020 |
|---|-----------|------------------------------|---------------------|-----------------------|-----------------------|
| Defined benefits cost: | | | | | |
| Current service employee cost | \$ | 4 | 6 | 10 | 8 |
| Labor cost of past service | | 5 | 4 | 9 | - |
| Net balance over the net liabilities of defined benefits | | - | - | - | 4 |
| Interest cost in DBO | | 2 | 2 | 4 | 3 |
| Actuarial gain | | - | 3 | 3 | - |
| Early settlement of obligations | | (2) | (4) | (6) | - |
| Recycling of recognized remeasurements in OCI of the year | | - | - | - | (3) |
| Defined benefits cost | \$ | 9 | 11 | 20 | 12 |
| Beginning balance of DBNL | \$ | 27 | 39 | 66 | 54 |
| Defined benefits cost | | 9 | 11 | 20 | 12 |
| Payments charged to DBNL | | (2) | (6) | (8) | - |
| Defined benefits of net liabilities (note 19) | \$ | 34 | 44 | 78 | 66 |

The following is a detail of the financing situation of the obligation for defined benefits as of December 31, 2021 and 2020:

| | | Seniority premium | Compensation | Total 2021 | Total 2020 |
|--|----|--------------------------|---------------------|-----------------------|-----------------------|
| Net liability for defined benefits | \$ | 34 | 44 | 78 | 66 |
| Remeasurements for defined benefits at employees ("OCI") | | (7) | (10) | (17) | (31) |

The main hypotheses used in the actuarial computations are:

| | 2021 | 2020 |
|-------------------------------|-------------|-------------|
| Nominal discount rate | 8.00% | 6.00% |
| Rate of wages increase | 7.50% | 4.50% |
| Rate of minimum wage increase | 5.50% | 4.50% |
| Average working life | 11.80 years | 11.85 years |

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(17) Deposit funding -

As of December 31, 2021 and 2020, deposit funding caption is integrated as mentioned below:

| | Currency | | | |
|--|------------------|---|---------------|---|
| | 2021 | | 2020 | |
| | Domestic | Translated foreign (²) | Domestic | Translated foreign (²) |
| Demand deposits: | | | | |
| Bearing interests checks | \$ 13,136 | 1,299 | 11,014 | 1,127 |
| Non-bearing interests checks | 20,180 | 252 | 21,614 | 272 |
| | 33,316 | 1,551 | 32,628 | 1,399 |
| Time deposits: | | | | |
| Deposit certificates | 7,059 | 881 | 5,654 | 537 |
| Promissory notes | 19,524 | - | 17,077 | - |
| | 26,583 | 881 | 22,731 | 537 |
| Marketable debt securities | 1,064 | - | 416 | - |
| Global deposit account without movements ⁽¹⁾ | 66 | 8 | 96 | 15 |
| | 61,029 | 2,440 | 55,871 | 1,951 |
| Total | \$ 63,469 | | 57,822 | |

⁽¹⁾ *Global deposit account without movements*

Based on the provision of Article 61 of the LIC, as of December 31, 2021 and 2020, the term of three inactive years were met, regarding some clients' deposit funding accounts; such term began from the recording in the "Global deposit account without movements" caption, which is composed by 5,361 and 14,942 accounts, respectively, with an individual balance lower or equal to 300 days of the current minimum wage in Mexico City, which totalized \$5 and \$9, respectively, which were recorded as a short-term liability. In conformity with the aforementioned article, the recorded balances were given to the Public Charity during January 2022 and 2021, respectively.

⁽²⁾ As of December 31, 2021 and 2020, the balances in the translated foreign currency include 119 and 98 million US dollars, respectively.

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The Bank's deposit funding classification by geographic zone as of December 2021 and 2020 is integrated as follows:

| | 2021 | 2020 |
|---------------------------|------------------|---------------|
| Nuevo Leon ⁽¹⁾ | \$ 28,387 | 25,183 |
| Centre ⁽²⁾ | 8,936 | 10,321 |
| North ⁽³⁾ | 7,306 | 6,475 |
| Others ⁽⁴⁾ | 18,840 | 15,843 |
| | \$ 63,469 | 57,822 |

(1) Mainly includes Monterrey and its metropolitan area.

(2) Includes Mexico City and State of Mexico.

(3) Includes Baja California, Chihuahua, Coahuila, Durango, Sinaloa, Sonora and Tamaulipas.

(4) Includes Aguascalientes, Colima, Guanajuato, Guerrero, Hidalgo, Jalisco, Michoacán, Morelos, Nayarit, Puebla, Querétaro, San Luis Potosí, Quintana Roo, Yucatán and Veracruz.

Weighted average deposit funding rates (not audited) for "Demand deposits" and "Time deposits", both in national currency, as of December 31, 2021, were 2.03% and 4.25%, respectively (in 2020 they were 2.67% and 5.66%, respectively).

As of December 31, 2021 and 2020, the weighted average deposit funding rates (not audited) in foreign currency were 0.04% and 0.10%, respectively.

As of December 31, 2021 and 2020, the deposit certificates and promissory notes maturity dates were as follows:

| | 2021 | | | 2020 | | |
|--------------------|-------------------------|---------------------|---------------|-------------------------|---------------------|---------------|
| | Deposit certificates | Promissory notes | Total | Deposit certificates | Promissory noted | Total |
| Term: | | | | | | |
| 1 to 179 days | \$ 7,495 | 19,356 | 26,851 | 5,033 | 17,070 | 22,103 |
| 180 to 364 days | 426 | 168 | 594 | 1,154 | 7 | 1,161 |
| More than 365 days | 19 | - | 19 | 4 | - | 4 |
| | \$ 7,940 | 19,524 | 27,464 | 6,191 | 17,077 | 23,268 |

The Bank, through the Arrendadora, renewed its short-term securitized certificates program. Such program was authorized by the Banking Commission on March 18, 2020. As per this renewal, issuances could be done up to an amount of \$1,500, with revolving character, with a maturity date of five years beginning the program authorization date.

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Marketable debt securities-

As of December 31, 2021 and 2020, the marketable debt securities caption is integrated as follows:

Securitized certificates

| 2021 | Principal | Rate | Opening date (1) | Maturity (1) | Interests to be paid | Total |
|------|-----------------|-------|---------------------|-----------------|-------------------------|--------------|
| | \$ 20 | 5.10% | 25/06/2021 | 24/06/2022 | 1 | 21 |
| | 50 | 6.42% | 23/08/2021 | 08/02/2022 | - | 50 |
| | 71 | 5.50% | 20/10/2021 | 20/01/2022 | 1 | 72 |
| | 43 | 6.32% | 08/11/2021 | 03/01/2022 | - | 43 |
| | 30 | 6.37% | 10/11/2021 | 09/11/2022 | - | 30 |
| | 41 | 5.35% | 17/11/2021 | 26/01/2022 | - | 41 |
| | 24 | 6.27% | 22/11/2021 | 31/01/2022 | 1 | 25 |
| | 76 | 5.75% | 22/11/2021 | 10/01/2022 | - | 76 |
| | 41 | 6.12% | 25/11/2021 | 03/02/2022 | - | 41 |
| | 31 | 5.50% | 03/12/2021 | 05/01/2022 | - | 31 |
| | 31 | 5.30% | 03/12/2021 | 07/03/2022 | - | 31 |
| | 20 | 6.37% | 10/12/2021 | 09/12/2022 | - | 20 |
| | 100 | 5.00% | 14/12/2021 | 11/01/2022 | 1 | 101 |
| | 49 | 5.90% | 23/12/2021 | 27/01/2022 | - | 49 |
| | 105 | 5.71% | 24/12/2021 | 21/01/2022 | - | 105 |
| | 150 | 6.20% | 24/12/2021 | 20/01/2022 | - | 150 |
| | 51 | 5.75% | 29/12/2021 | 26/01/2022 | - | 51 |
| | 10 | 6.02% | 29/12/2021 | 29/06/2022 | - | 10 |
| | 87 | 5.65% | 30/12/2021 | 27/01/2022 | - | 87 |
| | 30 | 5.30% | 30/12/2021 | 31/01/2022 | - | 30 |
| | \$ 1,060 | | | | 4 | 1,064 |

Securitized certificates

| 2020 | Capital | Rate | Opening date (1) | Maturity (1) | Interests to be paid | Total |
|------|---------------|-------|---------------------|-----------------|-------------------------|------------|
| | \$ 20 | 5.28% | 29/01/2020 | 27/01/2021 | - | 20 |
| | 36 | 5.18% | 11/02/2020 | 09/02/2021 | - | 36 |
| | 15 | 5.19% | 07/10/2020 | 24/03/2021 | - | 15 |
| | 163 | 5.10% | 12/10/2020 | 21/01/2021 | 2 | 165 |
| | 10 | 4.95% | 30/10/2020 | 09/07/2021 | - | 10 |
| | 20 | 5.00% | 11/11/2020 | 10/11/2021 | - | 20 |
| | 20 | 5.05% | 08/12/2020 | 22/06/2021 | - | 20 |
| | 120 | 5.18% | 08/12/2020 | 07/12/2021 | - | 120 |
| | 10 | 5.10% | 17/12/2020 | 01/07/2021 | - | 10 |
| | \$ 414 | | | | 2 | 416 |

(1) Day/ Month/ Year.

(Continued)

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As of December 31, 2021 and 2020, all the issuances were issued at a yield with coupon payment according to the calendar, the defined interest rate based on the issuance prospectus, which is determined at a TIIE rate plus a spread, the issuances are with no guarantees and the principal amortizations are at maturity date without possibility of doing any anticipated amortization.

As of December 31, 2021 and 2020, the ratio of the authorized amount to the issued amount is 100%; no issuance expenses or related expenditures were made. The face value of such securities is \$100 Mexican pesos each one.

(18) Interbank and other borrowings -

As of December 31, 2021 and 2020, Interbank and other borrowings are as follows:

| | 2021 | 2020 |
|----------------------------------|-----------------|--------------|
| Short-term: | | |
| Banking institutions | \$ 80 | - |
| Development banks ⁽¹⁾ | 850 | 1,383 |
| Promotion funds ⁽¹⁾ | 2,036 | 1,239 |
| Accrued interest | 14 | 10 |
| | 2,980 | 2,632 |
| Long-term: | | |
| Development banks ⁽¹⁾ | 1,966 | 1,535 |
| Promotion funds ⁽¹⁾ | 1,991 | 2,280 |
| | 3,957 | 3,815 |
| Total | \$ 6,937 | 6,447 |

- (1) These borrowings are guaranteed with loan portfolio under the respective programs (see note 10 (e)).
(2) The balance of interbank loans as of December 31, 2021 and 2020, includes 14 and 6 million dollars, respectively.

As of December 31, 2021 and 2020, interbank and other borrowings have accrued interest in domestic currency at average annual (non-audited) rates of 5.35% and 6.36%, respectively. Interbank and other borrowings in foreign currency as of December 31, 2021 and 2020 accrued interest at annual average rates of 2.08% and 1.98% (non-audited), respectively.

As of December 31, 2021 and 2020, the maturity period of interbank and other borrowings are as follows:

| Maturity in years | 2021 | 2020 |
|--------------------------|----------|-------|
| 1 year | \$ 2,980 | 2,632 |
| 2 years | 85 | 101 |
| 3 years | 368 | 152 |
| 4 or more years | 3,504 | 3,562 |
| | \$ 6,937 | 6,447 |

As of December 31, 2021, the Bank has the following credit lines:

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| | Total amount of credit line | Not disposed balance | Term |
|--|--------------------------------|-------------------------|-------------------|
| Total banking institutions | \$ 336 | 256 | 1 year |
| FIRA ⁽¹⁾ | 4,550 | 523 | 1 year |
| Fideicomiso de Fomento Minero (FIFOMI) ⁽²⁾ | 50 | 50 | 1 year/indefinite |
| Total promotion funds | 4,600 | 573 | |
| NAFIN ⁽³⁾ | 1,040 | 190 | Indefinite |
| Bancomext ^{(1) (4)} | 3,000 | 992 | Indefinite |
| Total development banks | 4,040 | 1,182 | |
| | \$ 8,976 | 2,011 | |

(1) Could be disposed in Mexican pesos or US dollars.

(2) It is for an amount of 7 million UDI or its equivalent in domestic currency and could be disposed in Mexican pesos or US dollars.

(3) Global Credit Line for \$8,000, where the Bank, Almacenadora Afirme, S. A. de C. V., Organización Auxiliar del Crédito ("Almacenadora Afirme"), Arrendadora y Factoraje Afirme, S. A. de C. V., SOFOM, E. R. ("Factoraje Afirme") could dispose indistinctly, without exceeding the global limit. The disposals could be done in domestic currency or US dollars.

(4) The Bank issued import letters of credit as of December 31, 2021, for \$42 (valued amount) (\$32 in 2020), under the active credit line with Bancomext in both years, said balances are recorded in memorandum accounts.

(19) Other accounts payable -

As of December 31, 2021 and 2020, the other accounts payable caption is integrated as follows:

| | 2021 | 2020 |
|---|----------|-------|
| Creditors for settlement of transactions (investment securities) (note 7) | \$ - | 3,037 |
| Creditors for settlement of transactions (foreign exchange transactions) (note 6) | 99 | 73 |
| Clients' credit balances | 298 | 377 |
| Transactions to be settled to PROSA | 190 | 158 |
| Benefits to Bank personnel | 116 | 77 |
| Electronic Banking Services | 241 | 126 |
| Certified and Cashier Checks | 456 | 197 |
| Reserves for employee benefits (note 16) | 78 | 66 |
| Others | 710 | 519 |
| | \$ 2,188 | 4,630 |

(Continued)

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(20) Subordinated debt issued-

QAFIRME15

At the Extraordinary General Stockholders' Meeting held on February 4th, 2015, the Stockholders agreed to carry out an issuance of not preferred equity subordinated debt securities, perpetual and susceptible to be converted into shares at the Bank's option., The authorization for this issuance was provided by the Central Bank through the official document OFI/S33-001-12465 and OFI/S33-001-12722 dated January 21, 2015, and February 3rd, 2015, respectively. The bonds' issuance was carried out by a private bidding up to 11,000,000 with a face value of \$100 Mexican pesos each one, and bear an interest income at a rate of TIIE + 4.0%; such issuance is not guaranteed, the payment term of interests is on a quarterly-basis and there is not maturity date. Such issuance was for an amount of \$800, the proportion that the authorized amount of the subordinated obligations holds against the amount issued was 73%.

QBAFIRME18

At the Extraordinary General Stockholders' Meeting held on October 1st, 2018, the Stockholders agreed to carry out an issuance of not preferred equity subordinated debt securities, not susceptible to be converted into shares. The authorization for this issuance was provided by the Central Bank through the official document OFI/033-24335. The bonds' issuance was carried out by a private bidding up to 12,000,000 with a face value of \$100 Mexican pesos each one, and bear an interest income at a rate of TIIE + 2.8%; such issuance is not guaranteed, the payment term of interests is every 28 days and its maturity date will be on September 2028. Such issuance was for an amount of \$1,200, the proportion that the authorized amount of the subordinated obligations holds against the amount issued was 100%.

QBAFIRME20

At the Extraordinary General Stockholders' Meeting held on March 27th, 2020, the Stockholders agreed to carry out an issuance of not preferred equity subordinated debt securities, not susceptible to be converted into shares, the authorization for this issuance was provided by the Central Bank through the official document 153/12258/2020. The issuance of the bonds was carried out through a public bidding up to 5,000,000 subordinate bonds with a face value of \$100 pesos each, and bear an interest income at the rate of TIIE +2.8%, such issuance is not guaranteed, the payment term of interest period is every 28 days and their maturity will be in March 2030. Such issuance was in the amount of \$500, the proportion that keeps the authorized amount of subordinate obligations against the amount issued was 100%.

QBAFIRME20-2

At the Extraordinary General Stockholders' Meeting held on October 22nd, 2020, the Stockholders agreed to carry out an issuance of not preferred equity subordinated debt securities, not susceptible to be converted into shares, the authorization for this issuance was provided by the Central Bank through the official document 153/12258/220. The issuance of the bonds was carried out through a public bidding up to 2,300,000 subordinate bonds with a face value of \$100 pesos each, and bear an interest income at the rate of TIIE +2.8%, such issuance is not guaranteed, the payment term of interest period is every 28 days and their maturity will be in October 2030. Such issuance was for an amount of \$230, the proportion that keeps the authorized amount of subordinate obligations against the amount issued was 100%.

As of December 31, 2021 and 2020, the subordinate debt securities do not have a discount or premium rate.

(Continued)

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As of December 31, 2021 and 2020, the current placed securities under the "Subordinated Debt Issued" is \$2,736 and \$2,734 respectively, which includes accrued interests pending payment for \$13 and \$14 respectively and includes costs and issuance costs to be amortized, which amount to \$7 and \$10, respectively.

As of December 31, 2021 and 2020, the Bank had subordinated debt securities with related parties for \$607 in both years, these amounts include interests for \$5 in both dates, which is shown as follows:

| Issuance | Securities | 2021 |
|--------------|------------|--------|
| QAFIRME15 | 3,193,296 | \$ 319 |
| QBAFIRME18 | 1,686,627 | 169 |
| QBAFIRME20 | 896,770 | 90 |
| QBAFIRME20-2 | 240,000 | 24 |
| | | \$ 602 |

| Issuance | Securities | 2020 |
|--------------|------------|--------|
| QAFIRME15 | 3,193,296 | \$ 319 |
| QBAFIRME18 | 1,686,627 | 169 |
| QBAFIRME20 | 896,770 | 90 |
| QBAFIRME20-2 | 240,000 | 24 |
| | | \$ 602 |

(21) Income tax (IT) and employee statutory profit sharing (ESPS) -

IT is calculated considering inflation effects as taxable or deductible. The current IT rate during 2021 and 2020 is 30%.

The Bank and its subsidiaries present tax returns on a single basis and not on a consolidated basis.

For the years ended December 31, 2021 and 2020, the IT expense presented in the statement of income, is as mentioned below:

| | 2021 | 2020 |
|-------------|--------|-------|
| Current IT | | |
| | \$ 202 | 204 |
| Deferred IT | 18 | (104) |
| | \$ 220 | 100 |

The Bank determines the ESPS from the year 2021 in accordance with article 9 of the Income Tax Law and until the year 2020 in accordance with the article 125 of the Federal Labor Law, which is presented in the statement of income under the "Administrative and promotion expenses" caption.

For the year ended December 31, 2021, current ESPS amounted to \$68 (\$63 in 2020) and is presented under the "Administrative and promotion expenses" caption, in the statement of income.

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Deferred IT:

As of December 31, 2021 and 2020, the Bank has recognized the cumulative effect of the following temporary differences assets (liabilities) to deferred IT at the rate of 30% in both years.

| | 2021 | 2020 |
|---|--------|-------|
| Allowance for loan losses and reserve for foreclosed assets | \$ 705 | 651 |
| Allowance for doubtful accounts | 40 | 33 |
| Expense provisions | 168 | 94 |
| Write-offs to be deducted | 18 | 25 |
| Valuation | (67) | 33 |
| Properties, furniture and equipment | (177) | (129) |
| ESPS provision | (32) | 19 |
| Commissions to be deferred | 71 | 70 |
| Past-due interests | 31 | 28 |
| Deductions and prepayments | (211) | (200) |
| Deferred IT, net | 546 | 624 |
| Deferred ESPS, net | 179 | - |
| | \$ 725 | 624 |

For the year ended December 31, 2021, the deferred income tax asset shows a decrease of \$78 compared to 2020, which is made up of a debit of \$18 recognized in the income statement, a debit of \$1 recognized in remeasurements of defined benefits to employee in "OCI" and a debit of \$59 recognized in "OCI" from valuation of derivative financial instruments.

To assess the recoverability of deferred income tax assets, Management considers the probability that a part or all of them will be recovered. The final realization of the deferred assets depends on the generation of taxable income in the periods in which the temporary differences are deductible. To carry out this assessment, Management considers the long-awaited reversal of deferred assets, projected taxable profits and planning strategies.

Given that the Bank does not intend to sell the permanent investments in the short-term, these items did not generate deferred IT.

The reconciliation between the tax rate and the effective rate expressed in amounts and as a percentage of income before IT, is shown on the next page.

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| | 2021 | | 2020 | |
|---|--------|--------|--------|--------|
| | Amount | Rate % | Amount | Rate % |
| Income before equity method in the results of associates and IT: | \$ 969 | | 397 | |
| Current IT | \$ 202 | | 204 | |
| Deferred IT | 18 | | (104) | |
| Total IT | 220 | 23% | 100 | 25% |
| More effects of permanent differences, mainly annual adjustment for inflation, non-deductible expenses and non-cumulative income, net | 14 | 1% | (2) | (1%) |
| Tax inflation adjustment of fixed assets | 57 | 6% | 21 | 6% |
| | \$ 291 | 30% | 119 | 30% |

Other considerations:

Based on the IT Law, companies that carry out transactions with related parties, resident in the country or abroad, are subject to fiscal limitations and obligations referring to the determination of agreed prices since these should be comparable for those that could be used with or between independent parties in comparable transactions.

(22) Stockholder's equity

(a) Capital stock structure-

As of December 31, 2021 and 2020, the Bank's authorized nominal capital stock, subscribed and paid, amounted to \$2,752 and \$2,225, respectively, which is represented by 2,752,424,083 and 2,224,424,083 nominative ordinary shares, Series "O", respectively, with a face value of \$1.00 Mexican peso each one.

In Ordinary General Shareholders' Meetings, held on March 29, 2021 and April 15, 2021, the shareholders approved to make contributions for future capital increases for \$604 and \$25, respectively, for the 2021 fiscal year; in addition in the Ordinary General Meeting of Shareholders on August 26, 2020, the shareholders approved making contributions for future capital increases of \$223, for the 2020 fiscal year. Said contributions for future capital increases will be subscribed at the time legal and corporate requirements are complied with.

In the Extraordinary General Shareholders' Meeting, held on May 14, 2021, the shareholders agreed to increase the Bank's paid-in capital stock in the amount of \$528, this through the issuance, subscription and payment of 528,000,000 Series "O" shares, with face value of \$1.00 peso each. The payment of the increase was made through the capitalization of \$528, from the "Contributions for future capital increases" caption.

According to the LIC, any individual or entity could acquire Series "O" shares through authorization of SHCP, when these exceed 5% of capital stock.

(Continued)

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(b) Comprehensive income-

As of December 31, 2021 and 2020, comprehensive income amounted to \$920 and \$310, which is presented in the statement of changes in stockholders' equity and represent the total Bank's activity, and includes items that in conformity with the applicable Accounting Criteria, are recorded directly in the stockholders' equity.

(c) Stockholders' equity restrictions-

The LIC obliges the Bank to separate on an annual basis 10% of income to constitute statutory reserves up to the amount of paid-in capital. This reserve is not susceptible to be distributed to the stockholders, except for the form of dividends in shares. As of December 31, 2021 and 2020, the amount of such reserve amounted to \$368 and \$336, respectively, and represents 13% and 15%, respectively, of paid-in capital.

In the Ordinary General Stockholders' Meetings held on April 26th, 2021 and April 24th, 2020, increases to the statutory reserve were approved for \$32 and \$35, respectively, through the separation of 10% of net income during the fiscal years 2020 and 2019. Furthermore, in such Stockholders' Meetings it was approved to apply to the "Statutory reserves" the remaining balance of net income for \$289 and \$315, respectively.

The updated amount over tax basis of the contributions made by the shareholders, can be reimbursed to them with no tax, to the extent that such amount is equal or greater than the stockholders' equity.

Income over IT has not been covered, and the other stockholders' equity items, will originate an IT payment with charge to the Bank, in case of distribution

Subsidiaries' income shall not be distributed to the Bank's shareholders until dividends are collected. Likewise, income coming from market price valuation of investment securities and hedging derivatives could not be distributed until realized.

(d) Dividends-

In the Ordinary General Shareholders' Meeting, held on October 21, 2021, the shareholders agreed to declare dividends from the Net Tax Income Account (CUFIN) for the amount of \$650, equivalent to \$0.23618 pesos per share on the face value of the 2,752,424,083 Series "O" shares of the Bank, which were paid.

(e) Balances of stockholders' equity tax accounts-

As of December 31, 2021 and 2020 the balances of stockholders' equity tax accounts, are analyzed as follows:

| | 2021 | 2020 |
|---|----------|-------|
| Capital contribution account | \$ 5,231 | 4,358 |
| Net tax profit account (CUFIN, by its acronym in Spanish) | 3,327 | 3,116 |
| | \$ 8,558 | 7,474 |

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(f) Capitalization (unaudited)-

According to article 50 of the LIC, the Bank should maintain a net capital greater than the sum of capital requirements related to credit, market and operational risks that can occur in its operation. Net capital is determined in accordance with the Provisions issued by the Banking Commission on December 2nd, 2005, and with the latest in force amendments as of December 31st, 2021.

From the entry into force of the Basel III agreement in 2013, a Capital Index of 8.0% is established, and new floor levels are anticipated for the elements that integrate the basic part of net capital, and basic capital components are established (Fundamental and Non-fundamental Capital), based on the concepts that integrate such basic capital components while a capital conservation of 2.5% is incorporated of the own basic capital 1 over the weighted assets subject to total risk, in addition of a supplementary transitory systemic loading of an additional 0.30% for 2017 to maintain the Category I.

Capitalization index is equal to the result of the Bank's net capital quotient, divided by the sum of the weighted assets subject to credit risk, the equivalent weighted positions subject to market risk and assets subject to operational risk.

Following the Bank's capitalization information is presented as of December 31, 2021 and 2020, according to Basel III.

| | 2021 | 2020 |
|---|-----------------|--------------|
| Stockholder's equity at December 31: | | |
| Bank's stockholder's equity | \$ 7,149 | 6,250 |
| Subordinated debt issued and capitalization securities | 813 | 812 |
| Investment in shares of financial entities and their holdings | (631) | (705) |
| Intangible assets and deferred taxes | (523) | (310) |
| Basic Capital (Tier 1) | 6,808 | 6,047 |
| Complementary Capital (Tier 2) | 1,925 | 2,043 |
| Net Capital (Tier 1 + Tier 2) | \$ 8,733 | 8,090 |

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| | Equivalent Assets at risk | Capital Requirement |
|--|--------------------------------------|--------------------------------|
| Assets at risk on December 31, 2021: | | |
| <u>Market risk:</u> | | |
| Transactions in domestic currency with nominal rate | \$ 3,749 | 301 |
| Transactions in domestic currency with over rate | 2,155 | 173 |
| Transactions in domestic currency with real rate | 79 | 6 |
| Transactions in domestic currency with foreign currency | 5 | - |
| Us Dollars position | 156 | 12 |
| UDIS Position | 3 | - |
| Subtotal market risk | 6,147 | 492 |
| <u>Credit risk:</u> | | |
| Group III (weighted at 20%) | 668 | 53 |
| Group III (weighted at 50%) | 407 | 33 |
| Group III (weighted at 20%) | 290 | 23 |
| Group IV (weighted at 20%) | 152 | 12 |
| Group V (weighted at 50%) | 727 | 58 |
| Group V (weighted at 150%) | 48 | 4 |
| Group V (weighted at 50%) | 1,773 | 142 |
| Group VI (weighted at 75%) | 910 | 73 |
| Group VI (weighted at 100%) | 5,803 | 464 |
| Group VI (weighted at 125%) | 284 | 23 |
| Group VI (weighted at 150%) | 413 | 33 |
| Group VII_A (weighted at 20%) | 1,229 | 98 |
| Group VII_A (weighted at 50%) | 248 | 20 |
| Group VII_A (weighted at 100%) | 23,652 | 1,892 |
| Group IX_A (weighted at 138%) | 193 | 15 |
| Securitized with Risk Grade 1 (weighted at 20%) | 46 | 4 |
| Furniture and property, deferred charges and investments in shares | 5,560 | 445 |
| Total credit risk | 42,403 | 3,392 |
| Total market and credit risk | 48,550 | 3,884 |
| Total operational risk | 8,403 | 672 |
| Total market, credit and operational risk | \$ 56,953 | 4,556 |

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| | Equivalent Assets at risk | Capital Requirement |
|--|--------------------------------------|--------------------------------|
| Assets at risk on December 31, 2020 | | |
| <u>Market risk:</u> | | |
| Transactions in domestic currency with nominal rate | \$ 2,982 | 239 |
| Transactions in domestic currency with over rate | 2,471 | 198 |
| Transactions in domestic currency with real rate | 37 | 3 |
| Transactions in domestic currency with foreign currency | 128 | 10 |
| Us Dollars position | 6 | - |
| UDIS Position | 3 | - |
| Subtotal market risk | 5,627 | 450 |
| <u>Credit risk:</u> | | |
| Group III (weighted at 20%) | 576 | 46 |
| Group III (weighted at 50%) | 150 | 12 |
| Group III (weighted at 100%) | 1 | - |
| Group IV (weighted at 20%) | 512 | 41 |
| Group V (weighted at 20%) | 275 | 22 |
| Group V (weighted at 50%) | 434 | 35 |
| Group V (weighted at 150%) | 169 | 14 |
| Group VI (weighted at 50%) | 2,376 | 190 |
| Group VI (weighted at 75%) | 1,226 | 98 |
| Group VI (weighted at 100%) | 6,335 | 507 |
| Group VII_A (weighted at 20%) | 1,370 | 110 |
| Group VII_A (weighted at 50%) | 27 | 2 |
| Group VII_A (weighted at 100%) | 24,615 | 1,969 |
| Group IX_A (weighted at 100%) | 256 | 20 |
| Furniture and property, deferred charges and investments in shares | 5,845 | 468 |
| Total credit risk | 44,167 | 3,534 |
| Total market and credit risk | 49,794 | 3,984 |
| Total operational risk | 7,761 | 621 |
| Total market, credit and operational risk | \$ 57,555 | 4,605 |

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Capitalization on December 31:

| | 2021 | 2020 |
|---|---------------|---------------|
| Capital to assets at credit risk: | | |
| Basic Capital (Tier 1) | 16.05% | 13.69% |
| Complementary Capital (Tier 2) | 4.54% | 4.63% |
| Net Capital (Tier 1 + Tier 2) | 20.59% | 18.32% |
| Capital to assets at market and credit risks: | | |
| Basic Capital (Tier 1) | 14.03% | 12.14% |
| Complementary Capital (Tier 2) | 3.96% | 4.10% |
| Net Capital (Tier 1 + Tier 2) | 17.99% | 16.24% |
| Capital to assets at market, credit and operational risk: | | |
| Basic Capital (Tier 1) | 11.95% | 10.51% |
| Complementary Capital (Tier 2) | 3.38% | 3.55% |
| Net Capital (Tier 1 + Tier 2) | 15.33% | 14.06% |

For more details, please refer to “Appendix 1-O”, which is required per the provisions “Complementary information at Q4 2021”, in compliance with the obligation to disclose information about the Capitalization Index, that is contained at the Webpage:

<https://www.afirme.com/Nuestro-Grupo/Banca-Afirme.html>

(23) Balances and transactions with related parties-

In the normal course of its operations, the Bank carries out transactions with related parties. All the loan portfolio transactions with related parties are authorized based on article 73 of the LIC and are agreed to market rates, guarantees and conditions according to sound banking practices.

As of December 31, 2021 and 2020, the balances and operations with related parties, which include those greater than 1% of the Bank’s net capital, are summarized below:

Afirme Group:

| Balances: | 2021 | 2020 |
|-----------------|------|------|
| Deposit funding | \$ 5 | 19 |
| Transactions: | | |
| Interests paid | \$ 3 | 1 |

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Other related parties:

| Balances: | 2021 | 2020 |
|--|----------|---------|
| Availabilities | \$ 208 | 201 |
| Debtors on repurchase/resell agreements | 72,344 | 57,675 |
| Loan portfolio | 1,044 | 1,311 |
| Sundry debtors | 10 | 10 |
| Prepayments | 9 | 90 |
| Deposit funding (time deposits and repurchase/resell transactions) | (3,728) | (3,047) |
| Subordinated debt issued | (607) | (607) |
| Creditors on repurchase/resell agreements | (1,518) | (609) |
| Sundry creditors and other accounts payable | (10) | (2,024) |
| Debtors for settlement of transactions | 39 | 6,115 |
| <hr/> | | |
| Transactions: | 2021 | 2020 |
| Income: | | |
| Interest collected | \$ 66 | 73 |
| Administrative services | 76 | 133 |
| Commissions collected | 277 | 295 |
| Premiums collected | 1,964 | 2,692 |
| Result of the purchase-sale of investment securities | 95 | (33) |
| Rents collected | 2 | - |
| Other income | 1 | - |
| | <hr/> | <hr/> |
| | \$ 2,481 | 3,160 |

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| Expenses: | 2021 | 2020 |
|---|-----------------|--------------|
| Interests paid | \$ 81 | 94 |
| Rents paid | 170 | 125 |
| Payroll and benefits | 64 | 49 |
| Commissions paid | 67 | - |
| Fees | 463 | 600 |
| Premiums paid | 39 | 57 |
| Result of derivatives valuation | - | (10) |
| Other operating and administrative expenses | 277 | 263 |
| | \$ 1,161 | 1,178 |

According to article 73 of the LIC, the total of the Bank's transactions with related parties, should not exceed 35% of the basic part of net capital. As of December 31, 2021 and 2020, the total amount of granted loans to related parties amounted to \$1,044 and \$1,211, respectively, and are integrated as mentioned below:

| | 2021 | 2020 |
|---|-----------------|--------------|
| Individuals and corporations that have direct and indirect control over the Bank | \$ 1,026 | 1,192 |
| Members of the Bank's Management Board | 7 | 7 |
| Spouses and people with kinship with the Bank's officers and/or directors and/or shareholders | 11 | 12 |
| | \$ 1,044 | 1,211 |

For the years ended December 31, 2021 and 2020, there were not changes in the existing conditions of receivable and payable balances with related parties, or transactions that were deemed as irrecoverable or difficult to collect, and in consequence there was no need to create any uncollectible allowance for such transactions, except for loans granted by the Bank to third parties, in which allowances are created based on the rating methodology issued by the Banking Commission.

For the years ended December 31, 2021 and 2020, the benefits granted to those charged with governance, amounted to \$64 and \$49, respectively.

As of December 31, 2020, the Bank granted commercial loans to Factoraje Afirme for \$100. As of December 31, 2021, there were no commercial loans granted.

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(24) Memorandum accounts-

Memorandum accounts record assets or commitments that are not part of the Bank's balance sheet due to the fact that the rights of such transactions are not acquired or the commitments are not recognized as a liability until such contingencies are not materialized, respectively.

(a) Assets in trust or under mandate

As of December 31, 2021 and 2020, the Bank's trust activity that is accounted for in memorandum accounts, is shown as follows:

| | 2021 | 2020 |
|------------|-----------|--------|
| Trusts: | | |
| Management | \$ 36,694 | 35,776 |
| Guarantee | 5,047 | 4,957 |
| Investment | 1,903 | 1,597 |
| | 43,644 | 42,330 |
| Mandates | 34 | 60 |
| | \$ 43,678 | 42,390 |

For the years ended December 31, 2021 and 2020, the income received corresponding to the fiduciary activity amounts to \$105 and \$288, respectively, which are recorded in the caption of "Commissions and fees income" in the income statement. (note 25 (c)).

(b) Investment on behalf of third parties-

Resources managed by the Bank, responding to clients' instructions to invest in different instruments of the Mexican financial system, are accounted for in memorandum accounts. As of December 31, 2021 and 2020, the amounts for the managed resources are integrated as follows:

| | 2021 | 2020 |
|--|-----------|--------|
| Securitized certificates | \$ 5,924 | 5,124 |
| Credit instruments and securities for sale | 2,559 | 1,542 |
| Government securities | 3,823 | 2,396 |
| Shares | 7,768 | 7,746 |
| Others | 3,665 | 2,867 |
| | \$ 23,739 | 19,675 |

In the event that the resources are invested in the Bank's deposit funding securities, such amounts are included in the balance sheet.

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(c) Guarantees granted-

As of December 31, 2021 and 2020, guarantees granted correspond to loans of Afirme Group's Subsidiaries, as follows:

| | 2021 | 2020 |
|---------------------|---------------|--------------|
| Factoraje Afirme | \$ 99 | 13 |
| Almacenadora Afirme | 850 | 1,000 |
| | <u>\$ 949</u> | <u>1,013</u> |

(d) Loan commitments-

As of December 31, 2021 and 2020, loan commitments are integrated as follows:

| | 2021 | 2020 |
|----------------------------|-----------------|--------------|
| Irrevocable commitments | \$ 382 | 64 |
| Credit lines not exercised | 8,769 | 6,086 |
| | <u>\$ 9,151</u> | <u>6,150</u> |

(e) Assets in custody or under management-

The Bank records under this caption assets or securities of others that are received in custody or under management. As of December 31, 2021 and 2020, this caption is integrated as follows:

| | 2021 | 2020 |
|--|-------------------|----------------|
| Investment fund companies | \$ 4,976 | 3,901 |
| Assets in custody | 4 | 4 |
| Assets in guarantee | 62,973 | 53,711 |
| Assets under management ⁽¹⁾ | 258,560 | 144,736 |
| | <u>\$ 326,513</u> | <u>202,352</u> |

⁽¹⁾ Includes repurchase/resell agreement transactions and time deposits that were carried out in the Bank's branches.

During the years of 2021 and 2020, there were not commissions related to assets in custody.

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(25) Additional information over transactions and segments-

(a) Information by segments-

The Bank classifies its assets, liabilities and results in the following segments:

Credit. – addressed to individuals and corporations that comprises mostly loan portfolio products, such as credit cards, residential mortgage loans, autopago and commercial loans for business or commercial activity.

Treasury. - includes investment securities, repurchase/resell agreement transactions, derivatives and foreign exchange transactions, considering that the treasury is the complement to place and receive resources. The capital allocation is presented in credit.

Other services. - includes digital banking and trust services.

Allocation of expenses to the corresponding segments are carried out under the procedure that is described as follows:

- 1) Expenses directly identified with each segment.
- 2) Remaining expenses are distributed proportionally to the generated income of each segment before such distribution.

For the years ending December 31, 2021 and 2020, assets, liabilities and results by segment, are analyzed as follows:

| Assets and liabilities | Credit | Treasury | Other Services | Total |
|-------------------------------|---------------|-----------------|---------------------------|--------------|
| 2021 | | | | |
| Assets | \$ 57,988 | 119,057 | 581 | 177,626 |
| Liabilities | \$ 51,420 | 119,057 | - | 170,477 |
| 2020 | | | | |
| Assets | \$ 55,556 | 114,745 | 833 | 171,134 |
| Liabilities | \$ 50,139 | 114,745 | - | 164,884 |

(Continued)

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| Results | Credit | Treasury | Other Services | Total |
|---|---------------|-----------------|---------------------------|--------------|
| 2021 | | | | |
| Interest income | \$ 5,830 | 8,796 | - | 14,626 |
| Interest expense | (2,021) | (7,509) | - | (9,530) |
| Allowance for loan losses | (1,666) | - | - | (1,666) |
| Commissions and fees income | 1,004 | - | 1,635 | 2,639 |
| Commissions and fees expense | (333) | - | (769) | (1,102) |
| Financial intermediation income, net | 140 | (44) | - | 96 |
| Other operating income, net | 640 | - | - | 640 |
| Administrative and promotion expenses | (2,882) | (1,045) | (807) | (4,734) |
| IT | (162) | (45) | (13) | (220) |
| Equity in the results of operations of associates | - | - | 28 | 28 |
| Net income | \$ 550 | 153 | 74 | 777 |
| 2020 | | | | |
| Interest income | \$ 6,035 | 8,226 | - | 14,261 |
| Interest expense | (2,159) | (7,557) | - | (9,716) |
| Allowance for loan losses | (1,755) | - | - | (1,755) |
| Commissions and fees income | 1,004 | - | 1,035 | 2,039 |
| Commissions and fees expense | (255) | - | (366) | (621) |
| Financial intermediation income, net | 137 | 10 | - | 147 |
| Other operating income, net | 220 | - | - | 220 |
| Administrative and promotion expenses | (2,903) | (624) | (651) | (4,178) |
| IT | (81) | (14) | (5) | (100) |
| Equity in the results of operations of associates | - | - | 24 | 24 |
| Net income | \$ 243 | 41 | 37 | 321 |

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(b) Financial Margin-

For the years ended December 31, 2021 and 2020, the financial margin is integrated by the following components:

Interest income:

For the years ended December 31, 2021 and 2020, interest income is as follows:

| | 2021 | 2020 |
|--|-----------|--------|
| Cash and cash equivalents | \$ 203 | 186 |
| Investment securities | 6,208 | 5,089 |
| Interests and premiums on repurchase/resell agreement transactions | 2,322 | 2,865 |
| Loan portfolio | 5,830 | 6,035 |
| Income from hedging derivative financial instruments | 63 | 86 |
| | \$ 14,626 | 14,261 |

As of December 31, 2021 and 2020, interest income derived from loan portfolio by type of product, is integrated as shown below:

| | 2021 | 2020 |
|----------------------|----------|-------|
| Commercial loans | \$ 2,907 | 2,960 |
| Financial entities | 38 | 47 |
| Consumer | 2,001 | 2,033 |
| Residential mortgage | 765 | 852 |
| Government entities | 119 | 143 |
| | \$ 5,830 | 6,035 |

For the year ended December 31, 2021, commissions were collected related to commercial, consumer, residential mortgage and governmental loans for \$40, \$47, \$9 and \$1 respectively (\$37, \$31, \$6 and \$1, respectively in 2020).

For the year ended December 31, 2021, interest income related to commercial, consumer, residential mortgage and governmental loans, includes commissions for \$70, \$118, \$20 and \$2 respectively (\$56, \$99, \$19 and \$1 respectively, in 2020), which are accrued and recognized in the statement of income at weighted terms of 55, 37, 157 and 2 months respectively (51, 34, 164 and 2 months, respectively, in 2020).

For the years ending December 31, 2021 and 2020, interest income includes foreign currency interest that translated into domestic currency amounted to \$135 and \$136, respectively.

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Interest expense:

For the years ended December 31, 2021 and 2020, interest expense is integrated as follows:

| | 2021 | 2020 |
|--|-----------------|--------------|
| Demand deposits | \$ 661 | 773 |
| Time deposits | 1,016 | 1,255 |
| Bank and other borrowings | 340 | 319 |
| Subordinated debt issued | 215 | 223 |
| Stock market liabilities | 138 | - |
| Interests and premiums on repurchase/resell agreement transactions | 6,876 | 6,893 |
| Expenses from hedging derivatives transactions | 180 | 145 |
| Interest from global deposit account | 5 | 4 |
| Others | 99 | 104 |
| | \$ 9,530 | 9,716 |

For the years ending December 31, 2021 and 2020, interest expense includes foreign currency interest that translated into domestic currency amounted to \$1 and \$2, respectively.

(c) Commissions and fees income -

For the years ended December 31, 2021 and 2020, commissions and fees income is integrated as shown below:

| | 2021 | 2020 |
|------------------------------------|-----------------|--------------|
| Loan transactions | \$ 45 | 47 |
| Transfer of funds | 26 | 18 |
| Trust activities (note 24(a)) | 105 | 288 |
| Appraisals | 10 | 7 |
| Account management | 51 | 47 |
| Electronic banking | 1,714 | 1,106 |
| Social welfare rounds | 4 | 43 |
| Collection rights | 79 | 66 |
| Insurance | 240 | 191 |
| Other commissions and fees charged | 365 | 226 |
| | \$ 2,639 | 2,039 |

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(d) Financial intermediation income-

For the years ended December 31, 2021 and 2020, financial intermediation income is integrated as follows:

| | 2021 | 2020 |
|-------------------------------------|---------|------|
| Valuation results: | | |
| Investment securities | \$ (11) | (30) |
| Derivatives | 124 | 60 |
| Result for purchase-sale: | | |
| Investment securities | (156) | (20) |
| Valuation and purchase-sell results | (43) | 10 |
| Foreign exchange transactions | 139 | 137 |
| | \$ 96 | 147 |

(e) Other operating income, net-

For the years ended December 31, 2021 and 2020, the other operating income and expense are integrated as mentioned below:

| | 2021 | 2020 |
|---------------------------------------|--------------|--------------|
| Income: | | |
| Recoveries | \$ 117 | 70 |
| Accounts payable clean-up | 1 | 4 |
| Results for operating lease | 4 | 6 |
| Collection of written-off loans | 120 | 97 |
| Allowance's releases | 418 | 34 |
| Release of allowances for other debts | 40 | - |
| Sale of furniture and property | 4 | 9 |
| Subscription and Membership Bonus | 9 | 120 |
| Others | 64 | 17 |
| Total other income | 777 | 357 |
| Expenses: | | |
| Loss in sale of loan portfolio | (3) | (31) |
| Customer bonuses | (59) | (53) |
| Reserve for other past-due borrowings | (31) | (23) |
| Reserve of foreclosed assets | (16) | (16) |
| Write-offs | (26) | (13) |
| Others | (2) | (1) |
| Total other expenses | (137) | (137) |
| | \$ 640 | 220 |

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For the years ended December 31, 2021 and 2020, costs and expenses related to loan origination, are integrated as shown as follows:

| | 2021 | | | 2020 | | |
|------------------------------|-----------------------------|-----------------------|-----------------|-----------------------------|-----------------------|-----------------|
| | Capitalized during the year | Recognized in results | To be amortized | Capitalized during the year | Recognized in results | To be amortized |
| Crédito Sí | \$ 1 | 5 | 1 | 5 | 28 | 5 |
| Autoplazo | 79 | 72 | 145 | 52 | 71 | 140 |
| Residential Mortgage | 37 | 11 | 139 | 29 | 8 | 114 |
| Others | 44 | 42 | 41 | - | - | - |
| Credit card | 1 | 1 | 1 | 40 | 42 | 38 |
| Costs and expenses for loans | \$ 162 | 131 | 327 | 126 | 149 | 297 |

Following, there is an analysis of the terms in which the Bank amortizes the costs and expenses related to loan origination:

| Amortization terms in months: | 2021 | 2020 |
|-------------------------------------|---------|---------|
| Crédito Sí ⁽¹⁾ | 24 | 24 |
| Autoplazo ⁽¹⁾ | 48 | 48 |
| Residential Mortgage ⁽¹⁾ | 180 | 180 |
| Others ⁽¹⁾ | 4 to 24 | 4 to 24 |

⁽¹⁾ Costs and expenses for loan origination correspond mainly to consultations to credit information agencies, commissions for promotion and placement of loans throughout a subsidiary company, wages related to review of different contracts, assessment and if applicable loan approval, credit files review, products' territorial force and address verification.

(f) Commissions and fees paid-

For the years ended December 31, 2021 and 2020, the commissions and fees paid are integrated as mentioned below:

| | 2021 | 2020 |
|------------------------------|----------|------|
| Use of POS from other banks | \$ 736 | 366 |
| Credit card | 24 | 23 |
| Foreign currency remittances | 10 | 17 |
| Commercial commissions | 71 | 47 |
| NAFIN guarantees | 24 | 24 |
| Correspondent operation | 60 | 42 |
| ATM alliances | 25 | 18 |
| POS alliances | 80 | 19 |
| By placement of credits | 39 | 45 |
| Other commissions paid | 33 | 20 |
| | \$ 1,102 | 621 |

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(g) Financial indicators (unaudited)-

The table below describes the main financial indicators as of and for the years ended December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|--------|-------|
| Delinquency rate | 3.35% | 3.15% |
| Overdue loan portfolio coverage ratio | 1.31% | 1.36% |
| Operating efficiency (administration and promotion expenses / average total assets) | 2.71% | 2.93% |
| ROE (net income / average stockholders' equity) | 11.60% | 5.37% |
| ROA (net income / average total assets) | 0.45% | 0.23% |
| Liquidity (liquid assets / liquid liabilities) (*) | 0.91% | 0.85% |
| Financial margin for the year adjusted for credit risks / Average earning assets | 2.09% | 2.28% |

(*) Liquid assets - availabilities, securities to negotiate and available for sale.

Liquid liabilities - deposits of immediate demand, interbank loans and of other organizations of immediate and short-term demand

(26) Commitments and contingent liabilities-

(a) Leasing-

Some properties and operating equipment are leased. The leases foresee periodic rent adjustments based on changes in different economic factors. The total payments for this concept for the years ended December 31, 2021 and 2020, were \$369 and \$323, respectively.

(b) Service agreements

- (1) On December 31, 2009 and March 8, 2010, the Bank concluded contracts with indefinite validity for the provision of services for the promotion and placement of consumer loans with Emprendedores Firme, a related party, in which the Bank undertakes to make payments related to the placement rate. The consideration determined by the Bank for the years ended December 31, 2021 and 2020 amounts to \$187 and \$372 which is recognized in the statement of income under the "Administrative and promotional expenses" caption.
- (2) The Bank signed a professional service and advisory agreement to develop the necessary structure and to advise in decision-making process regarding the strategic investments in Mexican pesos with a non-related party, for an undefined term where the payment is proportional to the generated profit. As of December 31, 2021 and 2020, there is a provision for \$113 and \$35 respectively, which were recorded under "Sundry creditors and other accounts payable" caption, in order to cover this obligation. For the years ended December 31, 2021 and 2020, the expenses to this consideration amount to \$113 and \$16, respectively, which is recorded in the statement of income under the "Administrative and promotion expenses" caption.
- (3) On August 2nd, 2010, the Bank signed a contract for the provision of professional services with a related company to maintain and develop the contractual relationship with the aforementioned service provider in the previous paragraph.

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(c) Onerous surface's real right constitution contract-

On August 20th, 2008, the Bank signed an agreement of real rights on onerous surface (real rights), with related parties, in which the parties agreed that the Bank will have the ownership right of the technological SITE construction for 30 years and at the maturity date, the Bank will sell the built constructions on the land to the lessor at 10% of its physical value determined by an expert appraiser on such date. The amount recorded in fixed assets for the technological SITE construction as of December 31, 2021 and 2020, totals \$95 in both years. For the years ended December 31, 2021 and 2020, the expense for such consideration amounted to \$2 in both years, recognized in the statement of income under the "Administrative and promotion expenses" caption.

(d) Litigations and claims-

- (1) In the regular course of business, the Bank and its subsidiaries have been subject to certain suits, which are not expected to have a significant negative effect on the future financial position and operating income. In those cases, that represent a contingency, the necessary reserves have been created.
- (2) During 2014, the Bank was fined with a tax credit for the Flat Rate Business Tax ("IETU", by its acronym in Spanish), derived from the review that the SAT performed for the year 2008; such tax credit was covered in order to guarantee the tax interest, for which the Bank paid \$94, including accessories. The Bank has filed a nullity litigation against such resolution, which was resolved as positive for the Bank. In October 2018, the authority made a partial return of \$110, which includes the initial payment and a carryforward of \$16, omitting interest for \$66. For such omission, the Bank filed a nullity litigation, which to the date has not been resolved.

(27) Risk Management (unaudited) -

The function of identifying, measuring, monitoring, controlling and reporting the different types of risks that the Bank is exposed to, is conducted by the Comprehensive Risk Management Unit ("UAIR", by its acronym in Spanish), which reports to the Comprehensive Risk Management Committee, body established by the Bank's Board of Directors to follow up on the comprehensive risk management process.

The Integral Risk Management Committee sets forth risk policies and strategies, follows up on them and supervises their compliance.

The main objectives of the UAIR are as follows:

- To standardize the risk measurement and control.
- To protect the equity of the Bank against unexpected losses from market movements, loan defaults, resources liquidity and operational, legal and technological risks.
- To develop valuation models for the different types of risks.
- To prepare diagnoses based on risk management, risk information availability and quality.

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The Bank has methods to manage its different phases of risk, such as credit, legal, liquidity, market, operational and concentration. The Bank has sectioned the risk assessment and management in the line items that are shown as follows:

- (I) *Quantifiable risks.* - Quantifiable risks are those for which it is possible to prepare statistical basis to allow its potential losses to be measured. Some of these are described as follows:
1. *Discretionary risks.* - Discretionary risks are those resulting from taking a risk position, such as:
 - Credit risk
 - Liquidity risk
 - Market risk
 2. *Non-discretionary risks.* - Non-discretionary risks are those resulting from the business operation, but are not a result of taking a risk position, such as:
 - Operational risk, which includes:
 - Technological risk
 - Legal risk
- (II) *Non-quantifiable risks.* – Non-quantifiable risks are those resulting from unforeseen events for which a statistical base cannot be prepared to allow potential losses to be measured. The risk management policies and procedures updating and improvements have been a continuous process based on the objectives established and with the participation of all the areas involved, continuously maintaining the risk manual distribution and its continuous updating, through the Bank’s Intranet.

To support the role of Risk Management, the UAIR has risk measurement systems for market, credit and liquidity risks, as shown below:

- In the case of market risk system, the Bank has the ability to generate historical scenarios that apply for the full valuation of positions, and additionally generates other risk measures such as Marginal VaR and sensitivities. Furthermore, having the possibility of using scenario analysis they are also used for the generation of stress scenarios authorized by the empowered bodies.
- For credit risk, the system allows the loading of all positions subject to credit risk and risk parameters as probabilities of default and volatility, segmenting by economic sectors, geographical zones, rating and product.
- For the case of liquidity risk, the Bank has a system to generate the liquidity gaps and repricing, and there is the possibility to include scenarios regarding financial variables. Furthermore, the Liquidity Coverage Ratio (“CCL”, by its acronym in Spanish), is followed-up on a daily basis as it allows to the Bank to hold freely available liquid assets and high credit quality in order to contain a stress scenario for 30 days, being a fundamental indicator to observe a possible liquidity risk.
- The application used for the measurement of operational risk can include records of incidents and the materialization of operational risks. This information is used to generate the operational risk VaR under the composed poisson distribution.

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Interest rate risk

The Bank's balance sheet is exposed to movements in interest rates that affect the relationship of interest charged and interest paid. To measure this effect, the Bank utilizes a methodology based on the repricing of assets, liabilities and derivatives that are presented in the consolidated balance sheet under the approach of "Earnings at Risk". This methodology calculates the effect of an increase in interest rates in the Bank's risk positions, assuming that this effect affects them in the period of time between the date of repricing and a year. Therefore, all assets and liabilities are grouped in 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 not a risk based reference curve. Liabilities that do not have a specific maturity date are considered differently depending on whether they have cost or not. If liabilities have cost are integrated into the band 1 (one day) of the repricing gap, while if no cost is associated they are located in a band more than a year.

In this sense, and applying the methodology mentioned above, there is a sensibility that in case of a 50 basis point increase in the interest rate ("TIIE"), it would be an income of \$8, and assuming symmetry, a reduction of 50 basis points would have the opposite effect.

Credit risk:

It is defined as the volatility of revenues due to potential losses on loan portfolio for nonpayment of a borrower or counterpart.

Therefore, being the credit risk the default of customers to pay their obligations, the correct management of such it is essential to maintain a quality credit portfolio.

The credit management process is documented through the manual of credit prepared by the Bank, which its compliance is mandatory for the Bank as a whole. The structure of the processes that integrates the credit management, is summarized below:

- Promotion
- Evaluation
- Authorization
- Formalization
- Operation
- Administration
- Recovery

Following, there is a brief description of policies and procedures applicable to the loan portfolio granting process:

Policies and procedures for credit affairs-

The Bank has policies and procedures for credit and risk affairs, which are based on the different provisions and definitions issued by the Banking Commission and the internal for those charged-in governance bodies.

The adherence of the next policies is mandatory for all the directors that take part in the credit process and its objective is to maintain a loan portfolio in conformity with sound banking practices, diversified and with cautious and controlled risk.

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Risk concentration management

The Risk Committee is the empowered decision-making body that establishes policies related to concentration Risk Management and establishes analysis, reports and limits that are considered convenient for the concentration risk management, as well as the methodology to limit and monitor the concentration risk as the UAIR requires. The concentration limits are defined based on the Bank's risk appetite, taking into consideration the current concentration profile and the environment in which the Bank operates. The UAIR is in charge to monitor the concentration risk based on the terms established by the Risk Committee. The most relevant aspects of the concentration risk are included in the Risk Management's reports to the Board of Directors. The definition of significant position is established by the Risk Committee.

For the established regulatory limits, according to the article 54 of the Provisions, the information of the previous month of the Capitalization Index computation will be taken into account, as well as the book value and the amount of the basic capital, and such will be considered for this computation based on the current regulations, which is informed in the first days of the month to the credit analysis and business areas; the applicable finance limit for one individual or group of people that represent a common risk.

The Bank has established credit limits by borrower and/or economic group, as well as the maximum limit for non-guaranteed loans, activities or businesses that are the exclusive faculty of a certain level of resolution, the activities or businesses and regions in which the credit granting shall be promoted, credit risk exposure indicators, concentrations by activity or regions and its possible variations, considering the nature of the loan portfolio. The limits and indicators are authorized on an annual basis by the Board of Directors and its progress is monitored and reported on a monthly basis by the Risk Committee.

Origination, control, assessment and follow-up of credit risk

The Bank's business area, throughout its sales force, manages and structures the different loan portfolio projects, which are sent to the credit department for its analysis and resolution.

The resolution levels are defined by a faculties matrix based on the amount of the loan and the initial credit rating. The existing levels are: Board of Directors, Board of Directors' Executive Committee, Board Credit Committee, Public Sector Financing Committee, Directors Credit Committee, and joint faculties for loans less than 2 million UDI, which are analyzed under a parametric method.

The Bank's credit area assesses the client's credit quality through a credit analysis which evaluates the financial situation, payment source, legal and administrative capacity, credit history through credit information agencies, external references, internal payment history, economic environment, guarantees and quality information. For those clients with credit risk less than 2 million UDI, the credit area assesses the projects through a "Statistical" model, which analyzes the credit history through credit information agencies, internal payment history and the client's profile, analyzing financial and economic variables as well as the assessment of payment capacity, bank statements, type and size of business, economic sector and guarantees, among others.

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In addition, the UAIR follows-up the loan portfolio with financial performance through the review that the credit area performs, based on the policies as well as the allowance for loan losses process that is conducted on a quarterly basis and the monthly update, following the policies in the internal loan portfolio rating methodology established by the Banking Commission.

Loan portfolio recovery

The Bank has defined the collection strategies based on the client's delinquency payment. Further, there are some recovery processes and schemes, which are authorized by the administrative and legal collection areas that are monitored by the Assets at Risk Management Committee in conformity with the Recovery Manual.

The credit area issues some delinquency reports to follow-up the management of past-due loan portfolio, and at the same time, the Administrative and Legal Recovery areas generate similar reports on a quarterly basis that are presented to the Extended Business Committee and the Assets at Risk Management Committee, for which recovery budgets are followed-up on time.

The Bank assesses the performance, efficiency and reputation of the firms, agencies or external promoters, which are hired to recover the past-due loan portfolio in terms of the internal regulation, which is contained in the Hiring and Assessment Manual for Legal Collection External Firms.

Procedures are scheduled to ensure the transfer and timely accounting record of the past-due loan portfolio and the identification of commercial loans with recovery issues.

The objectives of the Bank's credit Risk Management, are as follows:

- To calculate credit risk exposure in time, considering and evaluating the concentration of exposures by ratings of risk, geographical regions, economic activities, currency and type of product.
- To create strategies of diversification of the credit portfolio, defining limits for such.
- Implementation of a global credit Risk Management that monitors all the transactions and aspects of credit risk.

The methodology used by the Bank for the determination of the expected and not expected losses of the loan portfolio, is based on the Credit Risk + methodology, with a confidence level of 99%. This methodology is a model of default, which is part of the course that events of non-compliance with the different debtors have an independent Bernoulli distribution.

For the probability of default of the loan portfolio, the corresponding criteria is applied, in accordance with the general methodology of loan portfolio rating established in the Provisions issued by the Banking Commission.

Additionally, rating institutions are used for assessment of credit risk of securities issued by financial institutions, firms and governments. In particular, the agencies used, for any operation using financial instruments involving some credit risk, mainly purchase of bonds as well as the operation with derivatives, are Fitch, Standard & Poor's and Moody's.

For the year ended December 31, 2021 and 2020, the result of our Exposure, Expected Loss with Recovery (recovery factor) and Credit VaR with Recover, is shown on the next page.

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| Loan Portfolio | VaR as of December 31, 2021 | | | | |
|---------------------------------|-----------------------------|---------------------------------|---------|------------------------------|-------------------------|
| | Exposure | Expected Loss (without Recover) | Recover | Expected Loss (with Recover) | Var @99% (with Recover) |
| Commercial loans (consolidated) | \$ 33,809 | 3,564 | 65% | 1,231 | 2,673 |
| Personal Loans | 3,579 | 400 | 21% | 316 | 363 |
| Credit card (*) | 844 | 132 | 26% | 97 | 112 |
| Autoplazo loans | 2,113 | 96 | 42% | 55 | 64 |
| Residential Mortgage Loans | 9,862 | 1,161 | 94% | 73 | 92 |
| Total | \$ 50,207 | 5,353 | | 1,772 | 3,304 |

| Loan Portfolio | VaR as of December 31, 2020 | | | | |
|---------------------------------|-----------------------------|---------------------------------|---------|------------------------------|-------------------------|
| | Exposure | Loss expected (without Recover) | Recover | Loss expected (with Recover) | Var @99% (with Recover) |
| Commercial loans (consolidated) | \$ 35,669 | 2,061 | 0.7 | \$ 709 | 1,869 |
| Personal Loans | 3,720 | 442 | 0.2 | 349 | 395 |
| Credit card (*) | 784 | 177 | 0.3 | 130 | 148 |
| Autoplazo loans | 627 | 27 | 0.4 | 16 | 17 |
| Residential Mortgage Loans | 8,381 | 943 | 0.9 | 59 | 78 |
| Total | \$ 49,181 | 3,650 | | 1,263 | 2,507 |

*Var @ 99% [Credit Risk+ Methodology]

At the end of December 2021 and 2020, the credit VaR with the recovery effect (Recover) amounts to \$3,304 and \$2,507, respectively.

The credit VaR is calculated on a monthly basis and a confidence level of 99%. The VaR could be understood as the maximum possible monthly loss which can be generated for the loan portfolio, under the assumption of a probabilistic distribution.

As observed, the VaR amounted to \$3,304 which meant a consumption of 110.1% of the limit authorized of \$3,000. It should be noted, that any excess is reported to the Board of Directors through the Bank's those charged-with governance, who determined if the excess is acceptable or not.

On the next page, is the composition of the Bank's portfolio as of December 31, 2021 and 2020 according to the credit quality of various counterparties.

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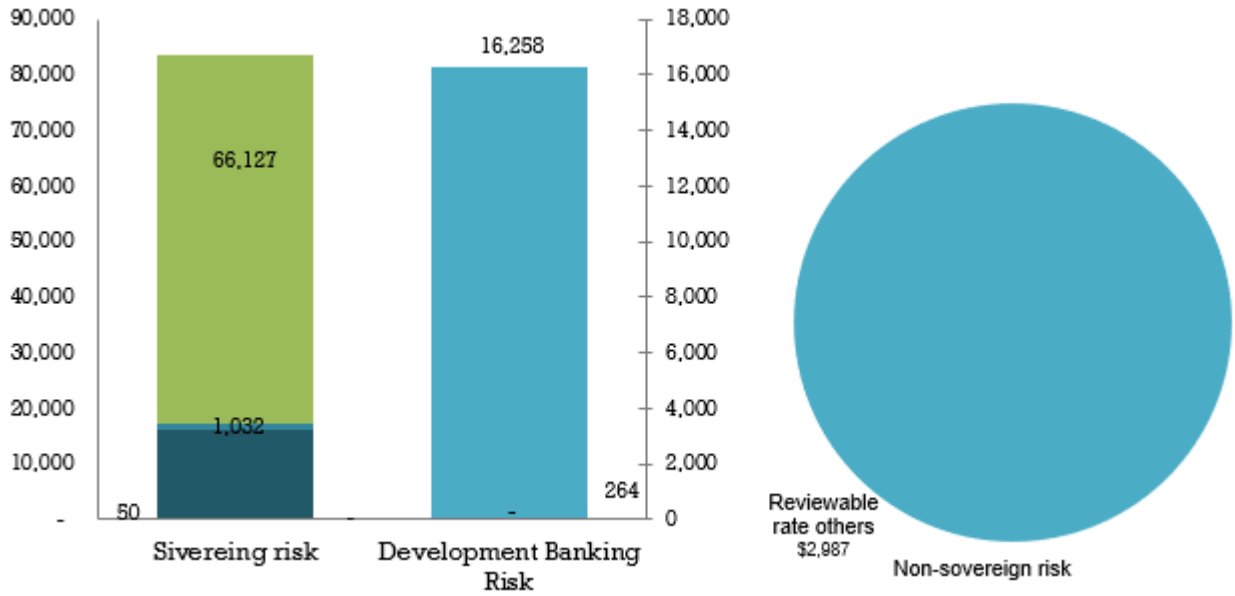
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(Subsidiaria de Afirme Grupo Financiero, S. A. de C. V.)

Notes to the Consolidated financial statements

(Millions of Mexican pesos)

VaR as of December 31, 2021

Credit Quality Exposition
(Issuances and derivatives)



| Non-Sovereign Risk Issuances Rating | | | |
|-------------------------------------|--------|---------|--------------|
| Rating agency | | | Market Value |
| Fitch | S&P | Moody's | |
| AAA (mex) | MxAAA | | \$ 1 |
| F1+ (mex) | MxA-2 | | 250 |
| F1+ (mex) | mxA-1+ | MX-1 | 150 |
| | | MX-1 | 104 |
| | mxA-1+ | | 201 |
| | mxA-1+ | | 28 |
| | mxA | | 60 |
| Total | | | \$ 794 |

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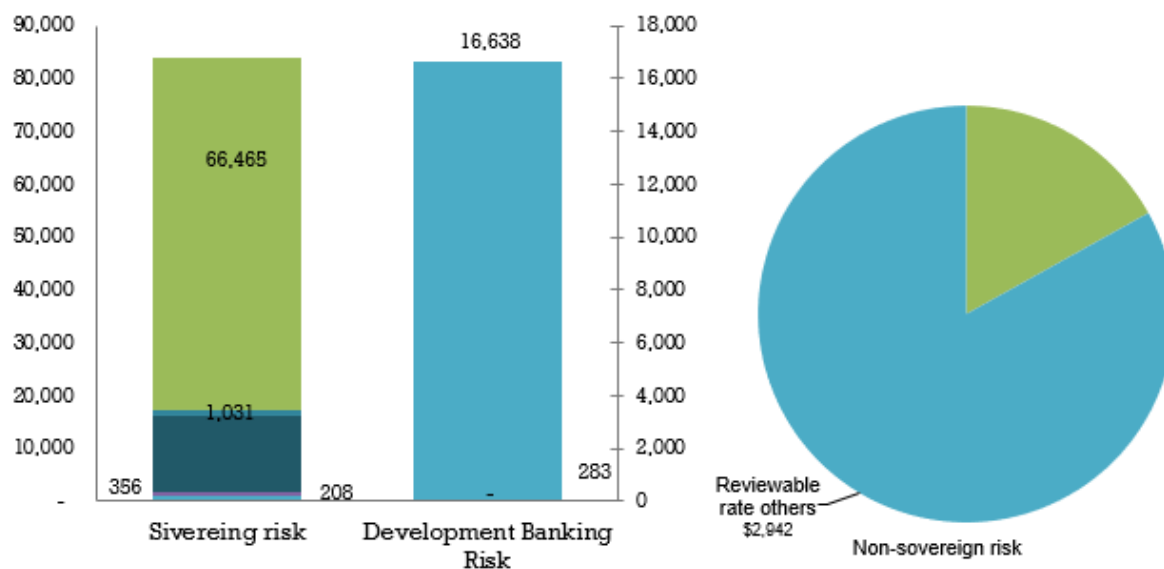
**Banca Afirme, S. A., Institución de Banca Múltiple,
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VaR as of December 31, 2020

Credit Quality Exposition
(Issuances and derivatives)



| Non-sovereign risk issuances rating | | | |
|-------------------------------------|--------|---------|--------------|
| Rating agency | | | Market value |
| Fitch | S&P | Moody's | |
| AAA (mex) | | Aaa.mx | \$ 50 |
| F1 (mex) | mxA-1 | | - |
| F1+ (mex) | mxA-1+ | | - |
| | | MX-1 | 554 |
| F2 (mex) | mxA-2 | | 200 |
| F3 (mex) | mxA-2 | | 100 |
| | mxA-1 | | - |
| | mxA-1+ | | 1,583 |
| | mxAAA | | 403 |
| Total | | | \$ 2,890 |

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For transactions with financial instruments involving credit risk (bonds and derivatives), the public information is sought related to the counterpart through the three international rating agencies, taking the one that represents the largest risk.

The same as the loan portfolio, VaR and the expected loss, they are calculated for both financial debt market instruments and derivative transactions. To this effect, curves of default are used and recovery factors published by the rating agencies are considered risk factors that apply to the model Credit Risk + previously referred.

In addition to the existing legal limits, the Bank has a structure of concentration limits of the loan portfolio, being the Risk Committee responsible for approving risk limits by economic sector, geographical area and type of loan, with the aim that the allocation of resources to the different areas of business is consistent with the level of risk approved by the Board of Directors.

To comply with the First Section of Chapter III of the Second Title of the Provisions, concerning the diversification of risks in active operations, the Bank performs an analysis of the borrowers and/or financing that possess about the existence of the "Common risk" and the impact on its capital. Also, the Bank has information and documentation to check if a person or group of people are at common risk, adjusting to the maximum limit of financing resulting from applying to the basic capital a factor that is linked to the level of capitalization of the Bank.

On the other hand, in connection with the deposit funding from the public, the Bank diversified its risks, depending on the placement of such deposits.

Liquidity risk:

It is defined as the potential loss by the impossibility of renewing liabilities or hire others in the normal business conditions for the Bank, or for the advance sale or forced sale of assets at unusual discounts to meet the Bank's obligations.

For the measurement of this risk the CCL and the liquidity GAP are determined. The CCL, which considered the nature of the freely available assets and high credit quality, which are held to meet the Bank's obligations and liquidity needs during 30 days. As of December 31, 2021 and 2020, the determination of the CCL was 192.46% and 148.8%, respectively.

The liquidity GAP, which consists in grouping the face values based on the maturity dates and the repricing of assets and liabilities of the consolidated balance sheet in fixed time intervals, is the metric that is monitored by the Risk Committee, the Bank's accumulated band for 60 days increased to \$12,896 as of December 31, 2021, level that was within the established limit.

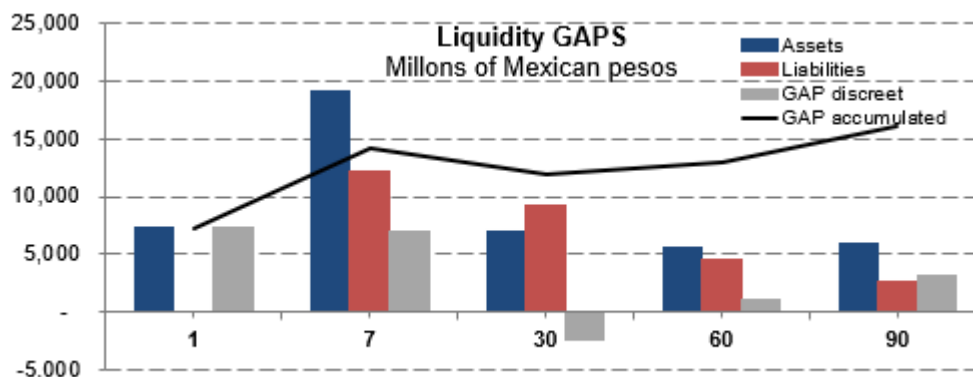
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The bands for term up to 90 days, are as follows:



Derived from the limits on this type of risk, the Bank's accumulated band within 60 days, amounts to \$12,896 and \$2,899 (unaudited figures), as of December 31, 2021 and 2020, respectively, which respected the established limit.

On a monthly basis, the UAIR generates two scenarios which are intended to show the behavior in the gaps under assumptions that assumes output of the deposit funding and increases in the delinquency in order to contrast the impact on the accumulated band within 60 days.

Meanwhile, the market VaR adjusted by liquidity, which is interpreted as the loss that the Bank would incur for the time that would be taken to settle the securities position in the market, such VaR would be estimated as the product of the daily market VaR multiply by the square root of 10.

The average Value at Risk adjusted by liquidity, corresponding to 2021 and 2020 for the different business units, are presented below (unaudited figures):

| Business Units | 2021 | 2020 |
|-----------------------|-------------|-------------|
| Trading money market | \$ (54) | (27) |
| Treasury money market | (3) | (3) |
| Global | (57) | (30) |

In general, the Bank's loan portfolio financing needs are covered by the deposit funding, however, other elements of liquidity are remained if required as credit lines and the ability to issue bank notes in the market, finding no legal limitations, regulatory or operational.

| Deposit funding | 2021 | 2020 |
|--|------------------|---------------|
| Demand deposits | \$ 34,867 | 34,027 |
| Time deposits | 27,464 | 23,268 |
| Debt securities | 1,064 | 416 |
| Global deposit account without movements | 74 | 111 |
| | \$ 63,469 | 57,822 |

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It is important to mention that the trading desks use a financing strategy through repurchase/resell agreement positions in direct, except for those securities that remain for the purpose of maintaining an adequate level of liquid assets.

Liquidity risk is managed by the Treasury and Risk Management areas.

The Treasury area carries out the daily monitoring of both current and future liquidity requirements making arrangements to ensure that the Bank has the necessary resources. On the other hand, the Risk Management area performs the analysis of liquidity risk through analysis of gaps in liquidity, repricing and the CCL, as well as the effects in the structural balance of possible adverse scenarios. Both areas have a constant coordination.

To monitor the various risks to which the Bank is exposed to, in particular the liquidity risk, there is an organizational structure involving the following areas and decision-making bodies:

- The Treasury area is the responsible for managing resources.
- The Risk Management area as the responsible area for monitoring and informing the Risk Committee on the measurements of liquidity risk and stress tests, as well as to report to the Board of Directors on the compliance with the limits established by such Board.
- The Assets and Liabilities Committee is responsible for monitoring the balance sheet and presenting balance sheet's management strategies, as well as authorizing hedging strategies.
- The Risk Committee is responsible for approving risk measurement methodologies, stress testing scenarios, monitoring of risks and where appropriate establish courses of action.
- The Board of Directors sets the maximum tolerance to the risks to which the Bank is exposed to, so as to authorize the contingency action plans in case of liquidity needs.

As mentioned before, the Treasury and Risk areas generate reports that are distributed and presented to the Committees responsible for the management of the liquidity risk, as the gaps ("GAPS") of cash flows, repricing gaps, analysis of stress testing and the deposit funding compared with the structure of the loan portfolio.

The Bank's liquidity strategy is mainly based on two major goals, 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 increase the term of its deposit funding. As such, the Bank guarantees to all its clients and counterparties the compliance with all the commitments made by the Bank.

The Bank's centralized financing strategy is based on the deposit funding through the commercial network. With this strategy, the deposit funding generates a greater diversification and stability. The Bank has important incentives to generate more deposit funding, in particular for time deposits. The Bank's commercial network has increased in order to catch new customers in different geographical areas, and as a result the customers have been deconcentrated. In addition, the Bank has financing sources in the formal market, having large credit lines.

The follow-up of the different indicators mitigates the liquidity risk since such indicators lead to the diversification of the deposit funding, to extend its term, to increase the liquid assets and to write-off the concentration of deposit funding, clients and the decrease of liquid assets.

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The stress tests consist in applying scenarios where there are situations that might be damaging to the Bank and be able to verify the Bank's ability to deal with the realization of these scenarios. In the particular case of liquidity risk, there are scenarios based on characteristic variables of the financial crisis that affect the liquidity of banks in general. Such tests are presented to the Risk Committee on a monthly basis for its analysis. The variables used to perform adverse scenarios are mainly past-due loan portfolio, interest rates and financing sources.

The Bank, in accordance with the Provisions, has liquidity contingency plans in case at some point there would be situations that might affect the Bank. These plans contain the staff functions, who would take part in the necessary actions, levels of authorization and the flow of information required. Such actions are identified and designed specifically to generate liquidity, considering for this purpose the Bank's structure and are divided according to the severity of possible scenarios.

Market risk:

Market risk is the volatility of revenues due to changes in the market that affect the valuation of asset positions, liability transactions or contingent liability factors, such as: interest rate, exchange rates, price indexes, etc.

To measure market risk, the Bank applies the non-benchmark historical simulation method to calculate Value at Risk (VaR), considering therefore a 97.5% level of reliability and a time horizon of one day with a 260 day history.

Under this method, VaR is the potential 1-day loss that may arise from the portfolio valuation at a certain date under the assumption that 259 immediate historical scenarios are repeated in the future, accommodated from higher loss to higher profit, and the VaR is determined based on a 97.5% level of reliability.

This method is applied to all the portfolios that the Bank has identified as business units and that are exposed to risk factor variations that directly affect their valuation (domestic and foreign interest rates, surcharges, exchange rates, among others).

VaR analysis as of December 31, 2021 and 2020, is as follows (unaudited balances):

| Business Units | VaR | |
|-----------------------|-------------|-------------|
| | 2021 | 2020 |
| Trading money market | \$ (11,810) | (9,132) |
| Treasury money market | (1,921) | (780) |
| Global | (11,637) | (8,751) |

The following graph shows the composition of the Bank's portfolio as of December 31, 2021 and 2020 according to the risk type:

| Type of risk | 2021 | 2020 |
|------------------------------------|-------------------|---------------|
| Federal government adjustable rate | \$ 1,032 | 1,031 |
| Real rate | 314 | 640 |
| IPAB adjustable rate | 66,127 | 66,465 |
| Other adjustable rate | 19,245 | 19,788 |
| Fixed rate | 17,763 | 9,219 |
| | \$ 104,481 | 97,143 |

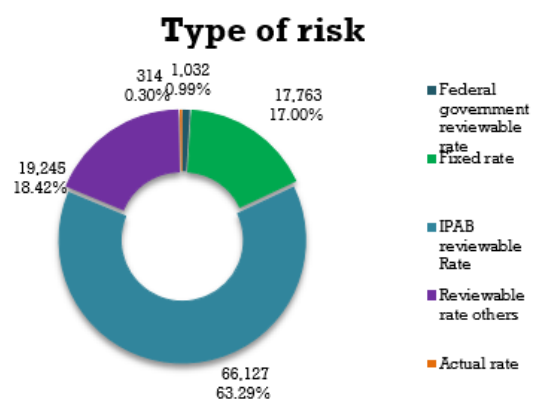
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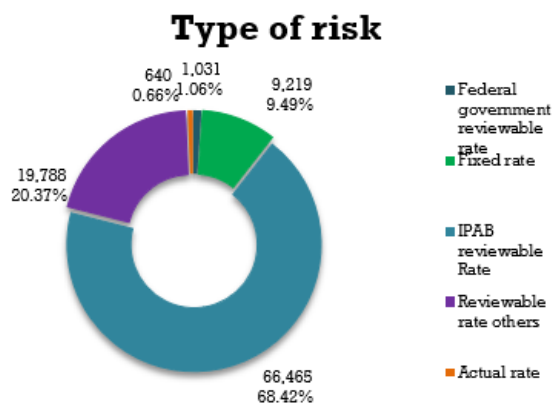
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2021



2020



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The average VaR relative to 2021 and 2020 for the different business units, is as follows (unaudited figures):

| Business Units | Average VaR | |
|-----------------------|--------------------|-------------|
| | 2021 | 2020 |
| Trading money market | \$ (17) | (9) |
| Treasury money market | (0.9) | (0.8) |
| Global | (17) | (8) |

In relation to the sensitivity of rates, prices and exchange rates, each month the UAIR generates an analysis, which reproduces the movements in the risk factors of the main financial crisis that have had a significant effect in the Mexican market.

The sensitivity of the positions of the Trading Desk, as of December 31, 2021, is \$17 (\$9 in 2020), assuming a change of 25 basis points in the reference rates.

As of December 31, 2021 and 2020, there were no changes in the methods and assumptions used.

Management of non-discretionary risks

A procedure for daily operational report incidents that are recorded in a database is ongoing. The recording process includes a detailed classification of incidents reported in the Bank's operations and subsidiaries. This means that each incident is assessed at the level of operational unit, where the owners are responsible for their processes and risk mitigation mechanisms. Any incident that results in an accounting loss is recorded in such database at all times is controlled by the UAIR.

Each incident is classified in accordance with its origin and specific characteristics, and its effect is identified against previously established risk factors. Subsequently, a probability of occurrence and economic impact level that scales the type of impact and its importance, are allocated based on internal statistics which allow a risk indicator to be generated.

Currently the Bank has a mechanism to measure and control the maximum operating loss that the Bank is willing to tolerate called "Tolerance Level ". This tolerance level is segregated by type of non-discretionary risk; i.e., there is a tolerance level for operational risk, one for legal risk and another one for technological risk, while noting that image risk, also known as reputational risk, is a risk which is considered an integral part of operational risk. The tolerance level is monitored periodically against incidents which resulted in an accounting loss and are addressed in the Risk Committee. For the subsidiaries is not considered tolerable any loss event so if encountered, are immediately managed by the subsidiary and their respective operating units, and subsequently to be presented to the Risk Committee the reasons underlying the event and the solutions proposed to prevent its recurrence.

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Following is a summary of the authorized tolerance level for the Bank, as well as the amount of risk effectively materialized for the twelve months ended December 31, 2021 and 2020, respectively.

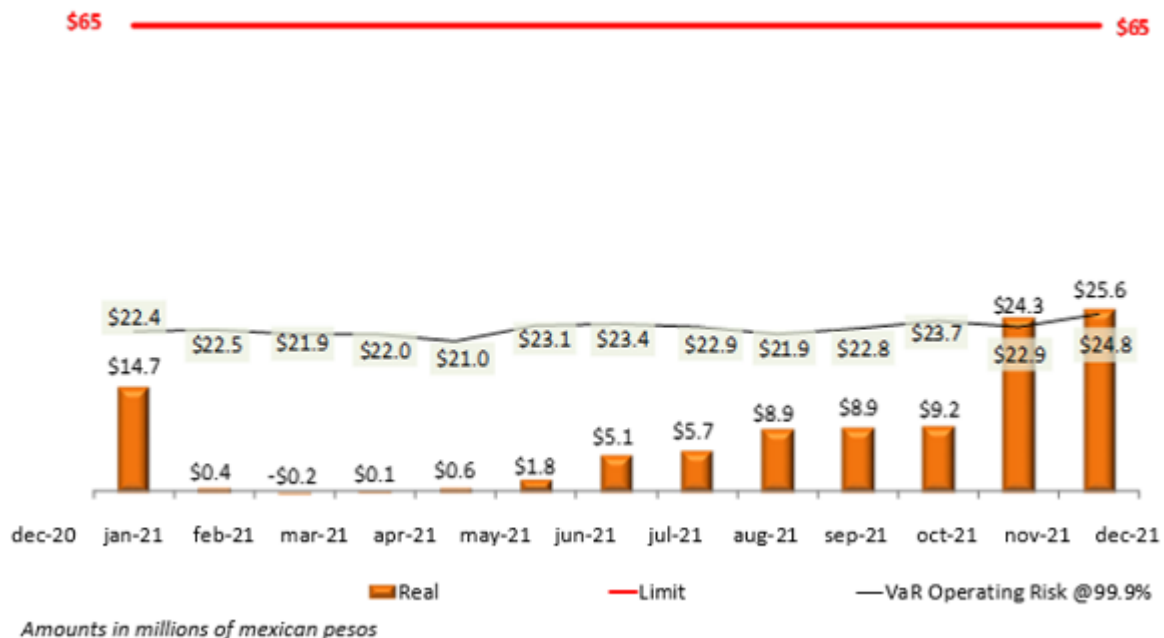
| Year | Table of tolerance level | |
|-------------|--------------------------|------|
| | Total Authorized Level | Real |
| 2021 | \$ 65 | 26 |
| 2020 | \$ 65 | 15 |

The average monthly amount for the years 2021 and 2020 amounted to \$2 and \$1 in both years and incorporates the three types of non-discretionary risks as aforementioned.

To estimate the losses generated for the business due to materialization of the non-discretionary risks, the Bank has currently established a VaR model based on the probability of occurrence and degree of impact of the events of risks historically observed. This VaR is addressed on a monthly basis in the Risk Committee and is based on a statistical compiled in a database that is totally managed by the UAIR.

2021

VaR Operational Graph



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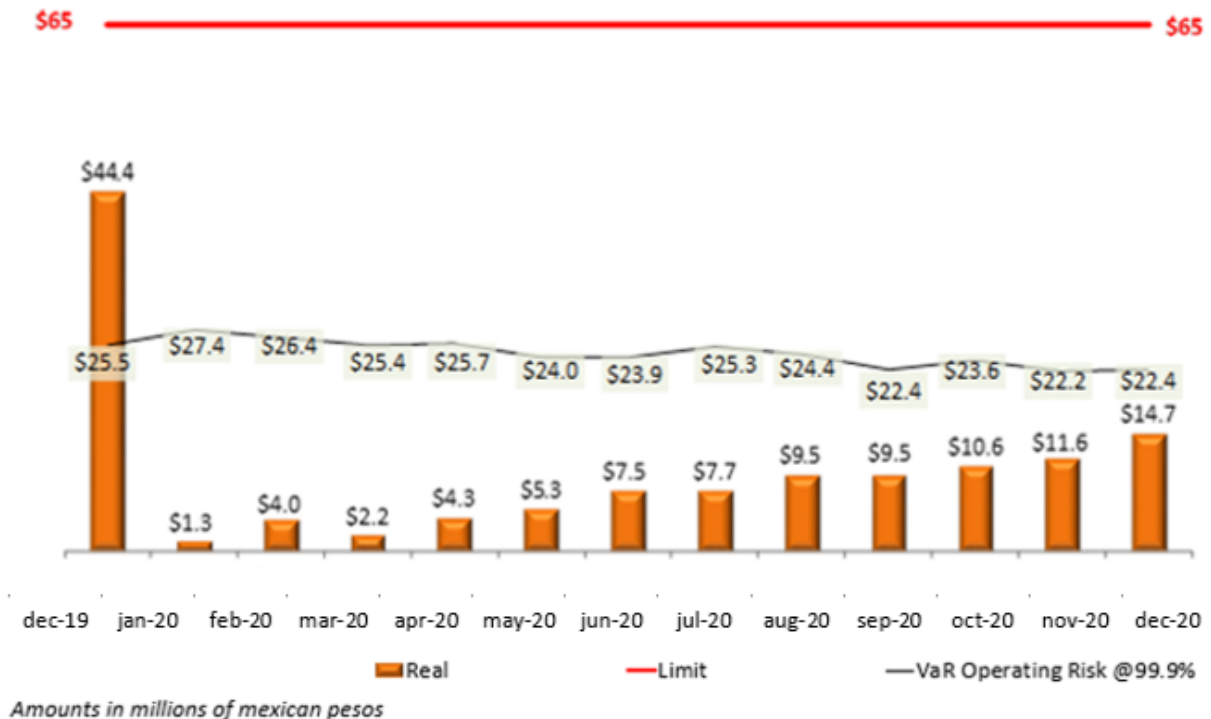
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2020

VaR Operational Graph



The diversified VaR has been estimated at \$25 at a 99.9% confidence level, as the non-diversified VaR has been estimated at \$26 at the end of December 2021 and 2020, respectively. According to the materialized risk events, the actual losses were \$26 and \$15 and represents 39.3% and 22.5% of the authorized level for the years ended December 31, 2021 and 2020, respectively.

Unquantifiable Risk Management

Unquantifiable risks are those which originate from random events over which the Bank has no control, such as hurricanes, earthquakes, flooding and other incidents classified as acts of nature or force majeure.

On March 11th, 2020, the World Health Organization declared the outbreak of SARS Cov-2 (“COVID-19”) as a pandemic given its rapid spread worldwide. Governments in different countries are taking increasingly stringent measures to help contain this virus. Accordingly, on March 23rd, 2020, the “Agreement by which the General Health Organization recognizes the epidemic caused by the SARS Cov-2 virus (“COVID-19”) in Mexico was published in the Official Journal of the Federation (D.O.F.) in Mexico, as a serious disease of priority attention and sets out the preparatory activities and response to the epidemic”.

The Bank has promptly monitored the events of the pandemic and the evolution of the pandemic in national territory. In this regard, we continue with the health security protocols implemented among others by the Federal Government, through the Ministry of Health; as well as the measures and mechanisms necessary to safeguard the integrity and health of our customers, users and personnel were reconsidered and evaluated. During the financial year 2020, the Institution has followed the following actions, among others:

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- a) Safety and hygiene protocols and standards have been strengthened, both in buildings and branches, incorporating specialized suppliers and increasing the frequency of cleaning and disinfection in all areas.
- b) Personnel considered vulnerable have been identified and safeguarded, and social distancing protocols have been continued.
- c) Work schemes within the Institution were defined, which prioritize remote work, verifying that critical processes are adequately addressed.
- d) In the case of branches, the branches have been kept open and operated with appropriate safety and hygiene measures.
- 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 to opt for a healthy return of staff to the facilities if possible.

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

Main indicators of assets at risk

Regarding the evolution of the main variations of assets at risk, following there is a comparison of assets at risk and capitalization index for the years ended December 31, 2021 and 2020 is presented below.

| | 2021 | 2020 |
|-----------------------------|------------------|---------------|
| Assets at credit risk | \$ 42,403 | 44,167 |
| Assets at market risk | 6,147 | 5,627 |
| Assets at operational risk | 8,403 | 7,761 |
| Total assets at risk | \$ 56,953 | 57,555 |
| Basic capital | \$ 6,808 | 6,047 |
| Complementary capital | 1,925 | 2,043 |
| Net capital | \$ 8,733 | 8,090 |
| Capitalization index | 15.33% | 14.06% |

Loan Portfolio Rating:

The Bank performs its loan portfolio rating process by applying the Methodology established in Chapter V "Loan Portfolio Rating" of the Provisions issued by the Banking Commission.

According to these Provisions, to classify the commercial loan portfolio, the Bank uses information related to the quarters ending in March, June, September and December, and records the respective allowance for loan losses at the end of each quarter in its accounting, considering the debt balance recorded in the last day of such months.

For the two subsequent months of each quarter, the loan portfolio rating related to the given loan used at the close of the prior quarter immediately to the debt balance recorded on the last day of such months can be

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used. However, when there is an intermediate rating after such quarter-closed, this latter can be applied to the aforementioned balance.

As of December 31, 2021 and 2020, as a result of the applicability of the loan portfolio rating methodologies, the probability of default and loss given default for each group, which were obtained as a weighted average for exposure at default, are shown below:

| Grade of risk | 2021 | | 2020 | |
|---------------|----------------|-----------|----------------|-----------|
| | Loan Portfolio | Allowance | Loan Portfolio | Allowance |
| A-1 | \$ 28,338 | 137 | 30,858 | 169 |
| A-2 | 10,101 | 135 | 8,001 | 100 |
| B-1 | 3,319 | 72 | 3,374 | 74 |
| B-2 | 2,354 | 62 | 1,720 | 52 |
| B-3 | 2,278 | 93 | 1,880 | 71 |
| C-1 | 2,135 | 141 | 1,198 | 78 |
| C-2 | 1,075 | 126 | 924 | 105 |
| D | 3,093 | 1,120 | 1,791 | 596 |
| E | 554 | 352 | 554 | 368 |
| Total | \$ 53,247 | 2,238 | 50,300 | 1,613 |

Based on the Provisions, the classification of the allowance for loan losses, are as follows:

Percentage of preventive allowances

| Risk level | Allowance for loan losses percentage range | | | | | | | |
|------------|--|---------------|-------|----------|------------|------------|--------------|-------|
| | Consumption | | | | Commercial | | | |
| | Revolving | Non-revolving | | Mortgage | | Commercial | | |
| A-1 | - | 3.0% | - | 2.0% | - | 0.50% | - | 0.90% |
| A-2 | 3.01 | 5.0% | 2.01 | 3.0% | 0.501 | 0.75% | 0.901 | 1.5% |
| B-1 | 5.01 | 6.5% | 3.01 | 4.0% | 0.751 | 1.0% | 1.501 | 2.0% |
| B-2 | 6.51 | 8.0% | 4.01 | 5.0% | 1.001 | 1.5% | 2.001 | 2.50% |
| B-3 | 8.01 | 10.0% | 5.01 | 6.0% | 1.501 | 2.0% | 2.501 | 5.0% |
| C-1 | 10.01 | 15.0% | 6.01 | 8.0% | 2.001 | 5.0% | 5.001 | 10.0% |
| C-2 | 15.01 | 35.0% | 8.01 | 15.0% | 5.001 | 10.0% | 10.001 | 15.5% |
| D | 35.01 | 75.0% | 15.01 | 35.0% | 10.001 | 40.0% | 15.501 | 45.0% |
| E | Greater than | 75.01% | 35.01 | 100.0% | 40.001 | 100.0% | Greater than | 45.0% |

Commercial loans:

As of December 2013, the Institution is rating the business portfolio and the portfolio in charge of federal government entities and federal, state and municipal decentralized entities with the new methodology established by the Banking Commission which was published in the DOF of June 24, 2013.

With the new rating methodology, the 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 Single Circular of Banks and analyzing the quantitative and qualitative factors applying the Annexes of Rating, which are described as follows:

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Loans to business or commercial activity:

The Bank rates the business or commercial activity loan portfolio based on the methodology established by the Banking Commission, which was published in the DOF on June 24th, 2013.

Appendix 21.- rating model for the loan portfolio owed by business entities and individuals with commercial activities with net sales or annual net revenues less than 14 million UDIS, which considers only quantitative factors, and analyzes the following risk factors: payment history based on information provided by credit rating agencies, INFONAVIT payment history and the company's own characteristics.

Appendix 22.- rating model for the loan portfolio owed by business entities and individuals with commercial activity with net sales or annual net revenues more than 14 million UDIS, by analyzing the following risk factors: a) quantitative factors: payment experience according to information provided by credit rating agencies, INFONAVIT payment history and financial risk, b) qualitative factors: country and industry risk, market positioning, transparency and standards, corporate governance, and management competence.

Loans to financial entities:

The Bank rates the financial entities loan portfolio based on the methodology established by the Banking Commission, which was published in the DOF on June 24th, 2013.

Appendix 20.- rating model for the loan portfolio owed by financial entities, analyzing the next risk factors: a) quantitative factors: payment experience according to information provided by credit rating agencies, INFONAVIT payment history and financial risk, b) qualitative factors: business context, organizational structure and management competence.

Loans to states, municipalities and decentralized entities:

The Bank rates the loan portfolio given to states, municipalities and decentralized entities, based on the methodology established by the Banking Commission, which was published in the DOF on October 5th, 2011.

Appendix 18.- rating model for the loan portfolio owed by states, municipalities and decentralized entities, analyzing the next risk factors: a) quantitative factors: payment experience according to information provided by credit rating agencies, financial risk, b) qualitative factors: socio-economic risk and financial strength.

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Residential mortgage loans:

The Bank rates the residential mortgage loan portfolio using the methodology set forth by the Banking Commission and published in the DOF in October and November 2010, which states that allowance for loan losses are determined based on the probability of default, loss given default and exposure at default, and analyzing the following factors: number of late payments as of the rating date, maximum historical of past-due payments, willingness to pay, CLTV, completeness of loan file and type of currency. Also, on January 6th, 2017, in the DOF were published changes to the rating methodology, which applied starting June 2017, incorporating to the existing model some variables of the borrower about their payment experience according to information provided by credit rating agencies, such as months have elapsed since the last thirty days of backlog.

Consumer loans

As of March 2011, the Bank scores the non-revolving consumer loan portfolio using the methodology set forth by the Banking Commission and published in the DOF in October and November 2010, and which states that allowances for loan losses are determined based on the probability of default, loss given default and exposure at default, as established in the Provisions, and analyzing the following factors based on the type of loan: number of late payments as of the rating date, maximum historical late payments, willingness to pay, percentage of loan balance over original amount, late payments rate, percentage of remaining term over the loan, number of times that the borrower pays the original value of the asset, type of loan, and in group loans among others, considering the number of late payments at rating date, willingness to pay, the number of people that in the group to which the borrower belongs and the average cycles of the group to which the borrower belongs. Also, on January 6th, 2017, in the DOF were published some changes to the rating methodology, which applied starting June 2017, incorporating to the existing model some variables of the borrower about their payment experience according to information provided by credit rating agencies, such as the months that have elapsed since the last thirty days of delay, amount to be paid to the Bank, amount to be paid and reported to credit rating companies, balance reported to credit rating companies, levels of debt, monthly income of the borrower, antiquity of the borrower with the Bank and antiquity of the borrower with financial institutions

According to the amendments made by the Banking Commission to the Provisions published in the DOF on August 12th, 2009, the Bank rates the portfolio of revolving consumer concerning to operations with credit cards, considering the following factors: balance due, payment made, credit limit, minimum payment required, payment default. In addition, on December 16th, 2015, some amendments were published in the DOF, which were related to changes in the rating methodology, which were applied starting April 2016, incorporated variables regarding the borrower's credit behavior according to information provided by credit rating agencies such as amount payable to the Bank, amount payable and reported to the aforementioned credit rating agencies, months since the last major delay of one day of the borrower's loan commitments, as well as the time that the borrower has been a client with the Bank. The allowance for loan losses' amount for credit cards will be determined considering probability of default, loss given default and exposure at default, in conformity with the established in the Provisions.

Additional information over loan portfolio rating:

On the next page, the Bank's total loan portfolio rating figures is presented, as of December 31, 2021 and 2020.

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(Millions of Mexican pesos)

2021

| Grade of risk | Commercial loans | | Residential Mortgage Loans | | Consumer loans not revolving | | Consumer loans revolving | | Total loan portfolio | |
|---|------------------|-----------|----------------------------|-----------|---------------------------------|-----------|-----------------------------|-----------|----------------------|-----------|
| | Portfolio | Allowance | Portfolio | Allowance | Portfolio | Allowance | Portfolio | Allowance | Portfolio | Allowance |
| A-1 | \$ 16,327 | 67 | 7,461 | 11 | 4,286 | 37 | 264 | 22 | 28,338 | 137 |
| A-2 | 9,101 | 112 | 423 | 3 | 387 | 10 | 190 | 10 | 10,101 | 135 |
| B-1 | 2,195 | 37 | 237 | 2 | 786 | 26 | 101 | 7 | 3,319 | 72 |
| B-2 | 1,591 | 33 | 218 | 3 | 505 | 23 | 40 | 3 | 2,354 | 62 |
| B-3 | 1,865 | 73 | 125 | 2 | 253 | 14 | 35 | 4 | 2,278 | 93 |
| C-1 | 1,463 | 101 | 324 | 11 | 292 | 21 | 56 | 8 | 2,135 | 141 |
| C-2 | 251 | 33 | 416 | 37 | 336 | 37 | 72 | 19 | 1,075 | 126 |
| D | 2,331 | 920 | 420 | 99 | 278 | 61 | 64 | 40 | 3,093 | 1,120 |
| E | 28 | 19 | 134 | 69 | 370 | 245 | 22 | 19 | 554 | 352 |
| Total Rated Portfolio | \$ 35,152 | 1,395 | 9,758 | 237 | 7,493 | 474 | 844 | 132 | 53,247 | 2,238 |
| Other items: | | | | | | | | | | |
| Interest collected in advance | (55) | - | - | - | - | - | - | - | (55) | - |
| Adjustment of rated contingent loans (credit letters and guarantees granted) | (1,329) | - | - | - | - | - | - | - | (1,329) | - |
| Total | \$ 33,768 | 1,395 | 9,758 | 237 | 7,493 | 474 | 844 | 132 | 51,863 | 2,238 |
| Rated loan portfolio without contingencies | \$ 33,823 | 1,395 | 9,758 | 237 | 7,493 | 474 | 844 | 132 | 51,918 | 2,238 |
| Additional allowances | | | | | | | | | | 44 |
| Total allowances for loan losses | | | | | | | | | | \$ 2,282 |

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2020

| Grade of risk | Commercial loans | | Residential Mortgage Loans | | Not revolving consumer loans | | Revolving consumer loans | | Total loan portfolio | |
|---|------------------|-----------|----------------------------|-----------|------------------------------|-----------|--------------------------|-----------|----------------------|-----------|
| | Portfolio | Allowance | Portfolio | Allowance | Portfolio | Allowance | Portfolio | Allowance | Portfolio | Allowance |
| A-1 | \$ 20,708 | 109 | 6,103 | 9 | 3,854 | 33 | 193 | 18 | 30,858 | 169 |
| A-2 | 7,021 | 77 | 416 | 3 | 414 | 10 | 150 | 10 | 8,001 | 100 |
| B-1 | 2,252 | 41 | 284 | 2 | 749 | 25 | 89 | 6 | 3,374 | 74 |
| B-2 | 764 | 17 | 287 | 4 | 631 | 28 | 38 | 3 | 1,720 | 52 |
| B-3 | 1,418 | 46 | 130 | 3 | 293 | 17 | 39 | 5 | 1,880 | 71 |
| C-1 | 433 | 30 | 300 | 9 | 405 | 30 | 60 | 9 | 1,198 | 78 |
| C-2 | 140 | 18 | 333 | 26 | 370 | 41 | 81 | 20 | 924 | 105 |
| D | 980 | 384 | 431 | 90 | 286 | 63 | 94 | 59 | 1,791 | 596 |
| E | 49 | 43 | 96 | 49 | 369 | 242 | 40 | 34 | 554 | 368 |
| Total Rated Portfolio | \$ 33,765 | 765 | 8,380 | 195 | 7,371 | 489 | 784 | 164 | 50,300 | 1,613 |
| Other items: | | | | | | | | | | |
| Interest collected in advance | (26) | - | - | - | - | - | - | - | (26) | - |
| Adjustment of rated contingent loans (credit letters and guarantees granted) | (1,077) | - | - | - | - | - | - | - | (1,077) | - |
| Total | \$ 32,662 | 765 | 8,380 | 195 | 7,371 | 489 | 784 | 164 | 49,197 | 1,613 |
| Rated loan portfolio without contingencies | \$ 32,688 | 765 | 8,380 | 195 | 7,371 | 489 | 784 | 164 | 49,223 | 1,613 |
| Additional allowances | | | | | | | | | | 493 |
| Total allowances for loan losses | | | | | | | | | | \$ 2,106 |

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Below is the Bank's commercial portfolio classified in current loans, past-due loans and non-performing loans with figures as of December 31, 2021 and 2020 is presented below:

Year 2021

| Loan Portfolio | Current loans | | | | | Past-due loans | | | | | Total loan portfolio | | | | |
|---------------------|------------------|----------------|---------------|----------------------|---------------|----------------|----------------|------------|----------------------|------------|----------------------|----------------|---------------|----------------------|---------------|
| | Performing | Non-performing | Total 1 | Interests in advance | Total 2 | Performing | Non-performing | Total 1 | Interests in advance | Total 2 | Performing | Non-performing | Total 1 | Interests in advance | Total 2 |
| Business loans | \$ 28,956 | 1,196 | 30,152 | (55) | 30,097 | - | 858 | 858 | - | 858 | 28,956 | 2,054 | 31,010 | (55) | 30,955 |
| Financial entities | 500 | - | 500 | - | 500 | - | - | - | - | - | 500 | - | 500 | - | 500 |
| Government entities | 2,314 | - | 2,314 | (1) | 2,313 | - | - | - | - | - | 2,314 | - | 2,314 | (1) | 2,313 |
| Total | \$ 31,770 | 1,196 | 32,966 | (56) | 32,910 | - | 858 | 858 | - | 858 | 31,770 | 2,054 | 33,824 | (56) | 33,768 |

| Loan Portfolio | Current loans | | | | | Past-due loans | | | | | Total loan portfolio | | | | |
|---------------------|------------------|----------------|---------------|----------------------|---------------|----------------|----------------|------------|----------------------|------------|----------------------|----------------|---------------|----------------------|---------------|
| | Performing | Non-performing | Total 1 | Interests in advance | Total 2 | Performing | Non-performing | Total 1 | Interests in advance | Total 2 | Performing | Non-performing | Total 1 | Interests in advance | Total 2 |
| Business loans | \$ 28,315 | 100 | 28,415 | (4) | 28,411 | 3 | 786 | 789 | - | 789 | 28,318 | 886 | 29,204 | (4) | 29,200 |
| Financial entities | 592 | - | 592 | - | 592 | - | - | - | - | - | 592 | - | 592 | - | 592 |
| Government entities | 2,892 | - | 2,892 | (22) | 2,870 | - | - | - | - | - | 2,892 | - | 2,892 | (22) | 2,870 |
| Total | \$ 31,799 | 100 | 31,899 | (26) | 31,873 | 3 | 786 | 789 | - | 789 | 31,802 | 886 | 32,688 | (26) | 32,662 |

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The Bank's rated loan portfolio for commercial loans by type of loan as of December 31, 2021 and 2020:

| 2021 | | Business loans | | Financial entities | | Government entities | | Total loan portfolio | |
|----------------------------|----|-----------------------|------------------|---------------------------|------------------|----------------------------|------------------|-----------------------------|------------------|
| Grade of risk | | Portfolio | Allowance | Portfolio | Allowance | Portfolio | Allowance | Portfolio | Allowance |
| A-1 | \$ | 13,510 | 58 | 500 | 5 | 1,131 | 3 | 15,141 | 66 |
| A-2 | | 8,714 | 106 | - | - | 383 | 6 | 9,097 | 112 |
| B-1 | | 2,159 | 36 | - | - | - | - | 2,159 | 36 |
| B-2 | | 1,488 | 33 | - | - | - | - | 1,488 | 33 |
| B-3 | | 1,865 | 73 | - | - | - | - | 1,865 | 73 |
| C-1 | | 663 | 47 | - | - | 800 | 54 | 1,463 | 101 |
| C-2 | | 251 | 33 | - | - | - | - | 251 | 33 |
| D | | 2,330 | 920 | - | - | - | - | 2,330 | 920 |
| E | | 29 | 21 | - | - | - | - | 29 | 21 |
| <hr/> | | | | | | | | | |
| Total loan portfolio rated | \$ | 31,009 | 1,327 | 500 | 5 | 2,314 | 63 | 33,823 | 1,395 |

| 2020 | | Business loans | | Financial entities | | Government entities | | Total loan portfolio | |
|----------------------------|----|-----------------------|------------------|---------------------------|------------------|----------------------------|------------------|-----------------------------|------------------|
| Grade of risk | | Portfolio | Allowance | Portfolio | Allowance | Portfolio | Allowance | Portfolio | Allowance |
| A-1 | \$ | 17,476 | 87 | 491 | 14 | 1,699 | 7 | 19,666 | 108 |
| A-2 | | 5,880 | 64 | 100 | 1 | 1,013 | 13 | 6,993 | 78 |
| B-1 | | 2,089 | 37 | - | - | 163 | 3 | 2,252 | 40 |
| B-2 | | 763 | 17 | - | - | - | - | 763 | 17 |
| B-3 | | 1,401 | 46 | 1 | - | 17 | 1 | 1,419 | 47 |
| C-1 | | 426 | 30 | - | - | - | - | 426 | 30 |
| C-2 | | 141 | 18 | - | - | - | - | 141 | 18 |
| D | | 980 | 384 | - | - | - | - | 980 | 384 |
| E | | 48 | 43 | - | - | - | - | 48 | 43 |
| <hr/> | | | | | | | | | |
| Total rated Loan portfolio | \$ | 29,204 | 726 | 592 | 15 | 2,892 | 24 | 32,688 | 765 |

As of December 31, 2021 and 2020, as a result of the application of the rating methodologies, the probability of default and loss given default for each group, which were obtained as weighted averages (non-audited) for the exposure to default, are shown on the next page.

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| Type of loan | Probability of default | Loss given default | | Exposure at default |
|------------------------------|------------------------|--------------------|----|---------------------|
| December 31, 2021 | | | | |
| Commercial loans | 10.47% | 34.49% | \$ | 33,823 |
| Residential mortgage loans | 11.60% | 14.30% | | 9,758 |
| Non-revolving consumer loans | 8.74% | 71.73% | | 7,493 |
| Revolving consumer loans | 10.36% | 72.83% | | 844 |
| December 31, 2020 | | | | |
| Commercial loans | 5.79% | 35.32% | \$ | 32,688 |
| Residential mortgage loans | 11.10% | 14.11% | | 8,380 |
| Non-revolving consumer loans | 9.22% | 71.73% | | 7,371 |
| Revolving consumer loans | 14.26% | 72.72% | | 784 |

With regard to credit risk of financial instruments and counterparty, the following is mentioned:

- Within the Bank's risk profile, there is a specific category for assigning counterparty risk. This assignment is authorized by the Risk Committee and the Board of Directors.
- The operation of non-government securities is carried out under an investment regime that is approved by the Risk Committee.
- In relation to the determination of the maximum exposure by banking counterparty, there is a methodology based on active response generated by the ICAP of each counterparty. This maximum exposure depends on the derivatives sub-limit. This exposure is approved by the Risk Committee and the Credit Committee.
- The Bank only operates with banking counterparties and with Asigna, which is the compensation and liquidity agency of the Mexican derivatives market; derivatives that are operated in such agency, are interest rate. For the type of counterparty that is operated to, the adverse correlation risk is minimized.
- With some counterparties there are collateral agreements for derivative transactions on which margin calls are made with respect to the value of derivatives, offsetting the positions. These margin calls are calculated by the UAIR on a daily basis, which informs both front office and support areas for managing the delivery or guarantees requests.

As of December 31, 2021 and 2020, the current exposure with derivative counterparties is equal to \$363, and \$0, respectively, that the added value, calculated using the methodology established in annex 1-L of the Provisions, is \$377 and \$36, respectively. By counterparty, is shown as follows:

| Type of loan | 2021 | Current exposure | Added value | EAD |
|---------------|------|------------------|-------------|-----|
| Counterpart 1 | | - | 1 | 1 |
| Counterpart 2 | | - | 15 | 122 |
| Counterpart 3 | | - | 2 | 2 |
| Counterpart 4 | | - | 23 | 253 |

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| Type of loan | 2020 | Current exposure | Added value | EAD |
|---------------|------|------------------|-------------|-----|
| Counterpart 1 | | - | 1 | 1 |
| Counterpart 2 | | - | 7 | 7 |
| Counterpart 3 | | - | 8 | 8 |
| Counterpart 4 | | - | 19 | 19 |

(28) Subsequent events-

In the Extraordinary General Shareholders' Meeting, held on February 22, 2022, the shareholders agreed to increase the Bank's paid-in capital stock by \$629, through the issuance, subscription and payment of 629,381,172 Series "O" shares, with face value of \$1.00 Mexican peso each. The payment of the increase was made through the capitalization of \$629, from the "Contributions for future capital increases" account.

(29) Recently issued financial reporting standards-

a) Accounting criteria

On December 4, 2020, and December 30, 2021, the Commission announced the obligation, effective January 1, 2022, through the Official Gazette of the Federation (for its acronym in Spanish "DOF"), to adopt the following Mexican FRS issued by the CINIF: B-17 "Fair value measurement", C-3 "Accounts receivable", C-9 "Provisions, contingencies and commitments", C-16 "Impairment of financial instruments receivable", C-19 "Financial instruments payable", C-20 "Financial instruments to collect principal and interest", D-1 "Revenue from contracts with clients", D-2 "Costs from contracts with clients" and D-5 "Leases". Pursuant to the transitory articles mentioned in the Banking Regulations, and as a practical solution, in the application of the modified accounting criteria contained in appendix 33 of the Banking regulations, credit institutions may recognize as the date of initial application, which is, January 1, 2022, the cumulative effect of the accounting changes. Also, the consolidated quarterly and annual financial statements required to credit institutions under the Banking Regulations for the period ended December 31, 2022, should not be presented comparative with each quarter of the year 2021 and for the year ended December 31, 2021.

Below is a summary of the Mexican FRS adopted:

Mexican FRS B-17 "fair value measurement"- Mexican FRS B-17 must be applied in determining the fair value. This FRS provides for the valuation and disclosure standards in the determination of the fair value, in its initial and subsequent recognition, if the fair value is required or permitted by other particular FRSs. Where applicable, changes in valuation or disclosure should be recognized prospectively. This FRS must be applied, except for what is established in the particular criteria defined in the Single Circular of Banks (for its acronym in Spanish "CUB").

Some specific details for credit institutions are:

Entities may not classify as Level 1 the updated prices for valuation that they determine through the use of internal valuation models.

Additionally, they must disclose:

- The type of virtual asset and/or financial instrument to which an internal valuation model is applicable.

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- When the volume or level of activity has decreased significantly, they must explain the adjustments that, if applicable, have been applied to the updated price for valuation.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the consolidated financial statements as a whole.

The initial impact of the entry into force of this standard mainly represents the effects of disclosure of information in the consolidated financial statements.

Mexican FRS C-2 " Investment in financial instruments "- The Accounting Criteria issued by the Commission "Investments in securities" (B-2) is repealed and it is established that FRS C-2 must be applied, regarding the application of the rules related to the registration, valuation and presentation in the financial statements of its investments in financial instruments as follows:

- The classification of financial instruments eliminates the concept of intention to acquire and use an investment in a financial instrument to determine its classification and instead adopts the business model of managing investments in financial instruments to obtain cash flows. With this change, the categories of held-to-maturity and available-for-sale instruments are eliminated. They must determine the business model they will use to manage their investments, classifying them in one of the following three categories: Negotiable financial instruments (IFN), Financial instruments to collect or sell (IFCV), or Financial instruments to collect principal and interest (IFCPI).
- It establishes the valuation of investments in financial instruments also according to the business model, indicating that each model will have its own item in the statement of comprehensive income.
- It adopts the principle that all financial instruments are valued on initial recognition at fair value.
- The valuation results that are recognized before the investment is redeemed or sold will be unrealized and, consequently, will not be subject to capitalization or distribution of dividends among its shareholders, until they are made in cash.
- Credit institutions, for the identification and recognition of adjustments for impairment, must adhere to the provisions of FRS C-2 "Investment in financial instruments", issued by the CINIF.

In the application of FRS C-2, the Commission establishes the following considerations:

- The exception to irrevocably designate, in its initial recognition, a financial instrument to collect or sell, to be subsequently valued at fair value with effects on the net income referred to in paragraph 32.6 of FRS C-2, will not be applicable to entities.
- The expected credit losses due to the impairment of investments in financial instruments as indicated in section 45 of FRS C-2 must be determined in accordance with the provisions of FRS C-16. In this regard, although the CNBV does not establish specific methodologies for its determination, it would be expected that the expected credit losses due to the deterioration of securities issued by a counterparty, be consistent with the deterioration determined for loans granted to the same counterparty.
- Reclassifications

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Entities that carry out reclassifications of their investments in financial instruments under section 44 of FRS C-2 must report it in writing to the CNBV within 10 business days following the authorization issued for such purposes by their Risk Committee, stating in detail the change in the business model that justifies them.

The Institutions must consider the Updated Price for Valuation provided by the Price Provider they have contracted, for the following:

- a) Securities registered in the Registry or authorized, registered or regulated in markets recognized by the Commission through general provisions.
- b) Derivative Financial Instruments that are listed on national derivatives exchanges or that belong to markets recognized by the Bank of Mexico.
- c) Underlying assets and other financial instruments that are part of the Structured Operations or Derivative Packages, in the case of Securities or financial instruments provided for in a) and b).

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the consolidated financial statements as a whole.

The initial impact due to the entry into force of this standard mainly represents effects of presentation and disclosure of information in the consolidated financial statements.

Mexican FRS C-9 "Provisions, contingencies and commitments" - It cancels Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities and commitments", its scope is reduced by relocating the topic related to the accounting treatment of financial liabilities in the Mexican FRS C-19 "Financial instruments payable" and the definition of liability is modified by eliminating the qualifier "virtually unavoidable" and including the term "probable".

Mexican FRS C-16 "Impairment of financial instruments receivable"-. When observing the criteria indicated in FRS C-16 "Impairment of financial instruments receivable", credit institutions should not consider the assets derived from the operations referred to in criterion B-6 - Credit Portfolio, issued by the Banking Commission, since the standards for the valuation, presentation and disclosure of such assets are contemplated in the aforementioned criterion, for the rest of the assets the expected losses due to impairment must be recognized considering what is mentioned in the next page.

- It establishes that the impairment losses of an IFC must be recognized when, as the credit risk has increased, it is concluded that part of the IFC's future cash flows will not be recovered.
- It proposes that the expected loss be recognized based on the historical experience of the credit loss entity, the current conditions and the reasonable and sustainable forecasts of the different quantifiable future events that could affect the amount of the future cash flows of the IFCs.
- In the case of interest-bearing IFCs, it establishes how much and when it is estimated that the amount of the IFC will be recovered, since the recoverable amount must be at its present value.

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- It establishes that, if the IFCPI was not withdrawn due to the renegotiation, it is appropriate to continue valuing the financial instrument using the original effective interest rate, which should only be modified due to the effect of the renegotiation costs.

The Commission establishes certain specifications for the application of FRS C-16 as follows:

- For those accounts receivable other than those related to the credit portfolio, entities must create, where appropriate, an estimate that reflects their degree of irrecoverability, applying the provisions of section 42 of FRS C-16.
- Overdrafts in the checking accounts of the entity's clients, who do not have a line of credit for such purposes, will be classified as overdue debts and the entities must constitute simultaneously with said classification an estimate for the total amount of said overdraft, at the time such an event occurs.
- Regarding the operations with uncollected immediate collection documents referred to in criterion B-1 "Cash and cash equivalents", 15 calendar days following the date on which they have been transferred to the item that gave them origin, they will be classified as overdue debts and their estimate must be constituted simultaneously for the total amount of the same.
- The collection rights acquired by the entity that are in the cases provided for in paragraph 23 of criterion B-6 - Loan portfolio, must be considered as financial instruments receivable with high credit risk (stage 3), and may not be transferred. to another stage for any after effect.
- For purposes of determining the amount of the expected credit loss referred to in paragraph 45.1.1 of FRS C-16, the effective interest rate used to determine the present value of the cash flows to be recovered must be adjusted when chooses to modify said rate periodically in order to recognize the variations in the estimated cash flows to be received.
- The constitution of reserves is established for the total debt and specific terms at the time of applying the practical solutions referred to in paragraph 42.6 of FRS C-16.
- Additionally, an estimate of expected credit losses will not be constituted for balances in favor of taxes, and creditable value added tax.

The Management recognized in the Statement of Financial Position as of January 31, 2022, the initial effect due to the entry into force of this standard, which represents an increase in the estimate for irrecoverability (credit) within the Accounts Receivable category for \$21 and a debit to the Retained Earnings item for the same amount, as well as a credit for \$8, corresponding to the deferred IT generated by said recognition.

Mexican FRS C-19 "Financial instruments payable" - The main characteristics issued for this Mexican FRS are shown below:

- Provides for the possibility of valuing certain financial liabilities at fair value, upon satisfaction of certain conditions, after their initial recognition.

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- Value long-term liabilities at their present value at initial recognition.
- When restructuring a liability, without substantially modifying the future cash flows to liquidate it being substantially modified, the costs and commissions incurred in this process will affect the amount of the liability and will be amortized over a modified effective interest rate, instead of directly affecting the net profit or loss.
- Incorporates the provisions of IFRIC 19 "Extinction of Financial Liabilities with Equity Instruments", a topic not included in the existing regulations.
- The effect of extinguishing a financial liability must be presented as a financial result in the consolidated statement of income.
- Introduces the concepts of amortized cost to value financial liabilities and the effective interest method, based on the effective interest rate.

The Commission establishes certain specifications for the application of FRS C-19 as follows:

Deposit funding

The characteristics of the issuance of the credit titles issued must be disclosed in notes to the consolidated financial statements: amount; number of titles in circulation; nominal value; discount or premium; rights and form of redemption; guarantee; expiration; interest rate; effective interest rate; amortized amount of the discount or premium in results; amount of issuance expenses and other related expenses and proportion of the authorized amount compared to the amount issued.

Specific aspects are established to be disclosed for the collection of resources whose destination is the assistance of communities, sectors or populations derived from natural catastrophes.

Interbank loans and loans from other organizations

The total amount of interbank loans must be disclosed, as well as that of other entities, indicating for both the type of currency, as well as the maturity terms, guarantees and weighted average rates to which, if applicable, they are subject, identifying the interbank promissory note and interbank loans agreed for a term less than or equal to 3 business days.

For lines of credit received by the entity in which not all the authorized amount has been exercised, the unused part of the same should not be presented in the statement of financial position. However, entities must disclose through notes to the financial statements the unused amount, in accordance with the provisions of criterion A-3, regarding the disclosure of financial information. The letters of credit contracted by the entity are included in the lines referred to in this paragraph.

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Restricted application resources received from the Federal Government

The resources that the development banking institutions receive from the Federal Government for a specific purpose, and that according to their economic substance are not considered as stockholders' equity in terms of the provisions of the FRS, will be recognized on the date they are received. In the statement of financial position in the caption of resources of restricted application received from the Federal Government against the corresponding restricted assets according to the nature of said resources.

Initial recognition of a financial instrument payable

The provisions of paragraph 41.1.1 number 4 of FRS C-19 will not apply, regarding using the market rate as the effective interest rate in the valuation of the financial instrument payable when both rates are substantially different.

Financial instruments payable valued at fair value

The exception to irrevocably designate in its initial recognition a financial instrument payable to be subsequently valued at its fair value with effect on the net result referred to in section 42.2 of FRS C-19 will not be applicable to entities.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the consolidated financial statements as a whole.

The initial impact due to the entry into force of this standard mainly represents effects of presentation and disclosure of information in the consolidated financial statements.

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Mexican FRS C-20 “Financial instruments to collect principal and interest”- The main characteristics issued for this Mexican FRS, are shown below:

- The manner of classifying financial instruments in assets is modified, as the concept of intention to acquire and hold them is discarded to determine their classification, instead the concept of management's business model is adopted.
- This classification groups financial instruments the purpose of which is to collect the contractual cash flows and obtain a gain for the contractual interest they generate, having a loan characteristic.
- They include financial instruments generated by sales of goods or services, financial leases or loans, as well as those acquired in the market.

For the purposes of FRS C-20, the assets originated by the transactions referred to in B-6, issued by the CNBV, should not be included, since the recognition, valuation, presentation and disclosure standards for the initial and subsequent recognition of such assets are already contemplated in said criterion.

The Commission establishes certain specifications for the application of FRS C-20 as follows:

Initial recognition of a financial instrument to collect principal and interest

The provisions of paragraph 41.1.1 number 4 of Mexican FRS C-20 will not apply regarding the use of the market rate as the effective interest rate in the valuation of the financial instrument to collect principal and interest when both rates are substantially different.

Collection rights

For purposes of recognition of effective interest, the effective interest rate of the collection rights may be adjusted periodically to recognize the variations in the estimated cash flows to be received.

Fair Value Option

The option to irrevocably designate in its initial recognition a financial instrument to collect principal and interest, to be subsequently valued at fair value with effect on the net result referred to in paragraph 41.3.4 of the Mexican FRS C-20, will not be applicable.

Loans to officers and employees

The interest originated from loans to officials and employees will be presented in the statement of comprehensive income under other income (expenses) of the transaction.

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Loans to retirees

Loans to retirees will be considered part of the loan portfolio, and must adhere to the guidelines of criterion B-6, except when, as with active employees, the collection of said loans is made directly, in which case they will be recorded in accordance with the guidelines applicable to loans to officers and employees.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the consolidated financial statements as a whole.

The initial impact due to the entry into force of this standard mainly represents effects of presentation and disclosure of information in the consolidated financial statements.

Mexican FRS C-10 “Derivative financial instruments and hedging relationships”- Its objective is to provide for the valuation, presentation and disclosure standards for the initial and subsequent recognition of derivative financial instruments (DFI) and hedging relationships in the Institution’s consolidated financial statements.

The main characteristics issued for this Mexican FRS are shown below:

- Define and classify the permissible models of recognition of hedging relationships;
- Establish both the conditions that a financial instrument, derivative or non-derivative, must meet to be designated as a hedging instrument, as well as the conditions that the hedged items must meet to be designated in one or more hedging relationships;
- Define the concept of alignment of an entity’s risk management strategy to designate a hedging relationship; and
- Establish the methods that serve to evaluate the effectiveness of a hedging relationship and the possibility of rebalancing it.

The Commission establishes certain specifications for the application of Mexican FRS C-10 as follows:

- Adds to the glossary of terms the definitions of Synthetic Operations with derivative financial instruments and Spot Price.
- Also, institutions must observe the following criteria:
 - ✓ Credit Derivative Financial Instruments
 - ✓ Structured operations and packages of derivative financial instruments

In addition, it establishes some clarifications on the recognition and valuation of derivative financial instruments that are listed below:

- Packages of derivative financial instruments listed on a recognized market as a single financial instrument.
- Derivative financial instruments not listed on recognized markets or exchanges

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- *Fair value hedge for interest rate risk of a portion of a portfolio made up of financial assets or financial liabilities (establishes specific conditions for this type of coverage)*

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the consolidated financial statements as a whole.

The initial impact due to the entry into force of this standard mainly represents effects of presentation and disclosure of information in the consolidated financial statements.

Mexican FRS D-1 “Revenue from contracts with clients”- The main characteristics issued for this Mexican FRS are shown below:

- The transfer of control, basis for the opportunity of revenue recognition.
- The identification of the obligations to be fulfilled in a contract.
- The allocation of the transaction price between the obligations to be fulfilled based on the independent sale prices.
- The introduction of the concept of conditioned account receivable.
- The recognition of collection rights.
- The valuation of income.

Appendix 33 establishes the acknowledgment in accordance with the provisions of this Mexican FRS for the following:

- Commission income from the granting of guarantees (B-8 Guarantees)
- Income derived from custody or administration services (B-9 Custody and Administration of assets)
- Income from management of Trusts (B-10 Trusts), including the suspension of the accumulation of said income, at the moment in which the debt for these presents 90 or more calendar days of non-payment, and may be accumulated again when the debt pending payment is settled in full.
- Operations carried out by development banking institutions as Financial Agent of the Federal Government (B-10 Trusts)

Mexican FRS D-2 “Income, costs from contracts with clients”- The main change in this standard is the separation of the regulations regarding the recognition of revenues from contracts with clients of the regulations corresponding to the recognition of costs for contracts with clients.

Management recognized the initial effect of the entry into force of these standards, which it considers immaterial for the purposes of the financial statements as a whole.

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Changes in Criterion B-6 “Loan Portfolio”:

The main amendments to B-6 are as follows:

- The modification in the way of classifying financial instruments in assets, since the concept of intention to acquire and hold them is discarded to determine their classification, instead the concept of business model of the administration and preparation of tests of financial instruments whose purpose is Only to Collect Principal and Interest (SPPI). The need for tests on the determination of these types of instruments is established.
- The Current and Past Due portfolio classification is eliminated, and the measurement of the portfolio is incorporated in three stages:
 - o **Portfolio with stage 1 credit risk.**- These are all those loans whose credit risk has not increased significantly from their initial recognition to the date of the financial statements and that are not in the assumptions to be considered stage 2 or 3 in terms of the Exhibit 33.
 - o **Portfolio with stage 2 credit risk.**- Includes those loans that have shown a significant increase in credit risk from their initial recognition to the date of the financial statements in accordance with the provisions of the models for calculating the preventive estimate for established credit risks. or permitted in the Provisions, as well as the provisions of Annex 33.
 - o **Portfolio with stage 3 credit risk.**- Those loans with credit deterioration caused by the occurrence of one or more events that have a negative impact on the future cash flows of said loans in accordance with the provisions of Annex 33.
- The evaluation of origination costs in a straight line is modified and measurement and valuation methods are incorporated:
 - o Amortized Cost: It is the present value of the contractual cash flows receivable from the loan portfolio, plus the transaction costs to be amortized, using the effective interest method and subtracting the preventive estimate for credit risks.
 - o Effective Interest Rate: It is the rate that exactly discounts the estimated future cash flows that will be collected during the expected life of a loan in determining its amortized cost. Its calculation must consider the contractual cash flows and the relative transaction costs.
 - o Amortized origination costs with effective rate

On September 23, 2021, through publication in the Official Gazette of the Federation, the Commission allows financial entities to continue using the contractual interest rate, as well as the straight-line method, in the recognition of accrued interest on their loan portfolio. for the recognition of commissions charged and transaction costs as indicated in the current criterion B-6 "Loan Portfolio", in force until December 31, 2021; such circumstance must be disclosed in the quarterly and annual financial statements for said fiscal year. To do this, they had to notify the CNBV in writing, before December 31, 2021, explaining in detail the reasons why they will not be in a position to apply the aforementioned effective interest rate, during the year of 2022, in addition to indicating the program to which they will be subject for its implementation.

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The credit institutions in the recognition and disclosure of the effects for the initial application of the effective interest method and the effective interest rate that they carry out in the year of 2023, must adhere to the provisions of the Financial Information Standard B-1 "Accounting changes and corrections of errors", applicable to credit institutions by virtue of the provisions of criterion A-2 "Application of particular rules", contained in Annex 33 of the General Provisions applicable to credit institutions.

The Entity, through an official letter filed on December 27, 2021, notified to the Banking and Commission of the deferral of the application of said methodology.

Preventive reserves for credit risks

The Institutions, for the purpose of calculating and establishing the preventive reserves for credit risks, must qualify from their initial recognition the credits of their Credit Portfolio based on the criterion of significant increase in credit risk. This criterion will be applied from the moment of origination and throughout the life of the loan, even when it has been renewed or restructured.

Institutions may choose one of the following approaches:

- I. The Standard Approach, which will be applicable to consumer, commercial and mortgage loan portfolios. Institutions that opt for this approach to calculate their preventive reserves must abide by the requirements and procedures contained in Chapter V Bis, which describes the General Standard Methodologies by type of loan portfolio.

This approach introduces new criteria for the classification and measurement of financial instruments, which are based on the joint consideration of the Business Model (ie the way in which the Entity manages its assets to obtain the contractual cash flows) and the analysis of the characteristics of the contractual flows of said instruments (ie SPPI test for its acronym in English: "Solely Payments of Principal and Interests"). Also, it introduces the concept of "Significant Increase in Risk" for which the reserves must be estimated for the contractual life of the loan. For those who have not presented an increase in risk, the expected loss at 12 months can be estimated. The usual approach to estimate credit losses in collective loans is by estimating the Expected Loss (EP) that uses the parameters of Probability of Default (PI), Severity of Loss (SP) and Exposure to Default (EI). This calculation must also include the possible impact on credit risk due to prospective information.

- II. The Internal Approach, which is applicable to all modelable portfolios, using the Internal Methodologies of reserves based on Mexican FRS C-16 referred to in Chapter V Bis 1, which refers to two models (Basic and Advanced). In this case, the Institutions will comply with the requirements contained in the aforementioned chapter and in Annex 15 Bis."

Internal approach – Basic model, each credit institution will perform its own calculation of the Probability of Default (PI) considering its positions subject to credit risk, and in the case of Severity of Loss (SP) and Exposure to Default (EI) in accordance with the provisions of the Commission's Standard Methodology. (applicable only to Commercial Credit Portfolio).

Internal approach – Advanced model, in which the Institutions must estimate their own PI, SP and EI. (Applicable to Commercial Credit, Consumer and Home Mortgage Portfolios).

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Loans belonging to portfolios that are not included in the relevant Modelable Portfolios will be rated according to the General Standard Methodology.

For the application of the internal approach, two main requirements are established in Annex 15 Bis, which are:

- 1) Implementation plan: Which establishes notifying the commission by free writing, 90 days in advance of the implementation, as well as stipulating within the writing the knowledge and authorization of the Council, it must be signed by the Director General or his absence, by the legal representative empowered to commit the Institution's resources. Additionally, specific requirements are established for its monitoring and measurement.
- 2) It requires some basic conditions such as having systems and infrastructures that support the applicability of the methodology, annual monitoring of reviews of the implemented models, among others.

Credit institutions must identify and classify the Credit Portfolio, as defined in the General Provisions applicable to credit institutions, by level of credit risk, in accordance with what is indicated below:

- a) Stage 1 to loans that do not present evidence of an increase in the level of credit risk, when they do not show any of the assumptions to be classified in this stage in accordance with the corresponding General Standard Rating Methodology, in accordance with this Resolution.
- b) Stage 2, when at the time of rating the credits present evidence of an increase in the level of credit risk to be classified in this stage in accordance with the corresponding General Standard Rating Methodology, in accordance with this instrument.
- c) Stage 3 to the credits that at the time of qualification meet the requirements to be classified in Stage 3 in accordance with the General Standard Methodology of qualification that corresponds to them, in accordance with this Resolution.

Credit institutions, in order to constitute the amount of preventive reserves for credit risks, may choose to:

- I) They will recognize in stockholders' equity, within the result of previous years, as of January 31, 2022, the initial accumulated financial effect derived from applying the corresponding credit portfolio rating methodology for the first time and will disclose in quarterly and annual financial statements the data relevant to this operation requested by the Commission.
- II) Constitute the amount of preventive reserves for credit risks at 100%, within a period of 12 months, counted from January 31, 2022. The institution will disclose in quarterly and annual financial statements the relevant data of this operation requested by the Commission.

The Management recognized in the Statement of Financial Position as of January 31, 2022, the initial effect due to the entry into force of this standard, which represents an increase (credit) in the Allowance for loan losses for an amount of \$23 against Retained earnings within Stockholders' Equity (debit) for the same amount, as well as a credit of \$9 for the corresponding deferred IT

Mexican FRS D-5 "Leases"- The application for the first time of this Mexican FRS generates accounting changes in the financial statements mainly for the lessee and grants different options for its recognition. Among the main changes are following:

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- Eliminates the classification of leases as operative or capitalizable for a lessee, and the latter must recognize a lease liability at the present value of the payments and an asset for the right of use for that same amount, of all leases with a duration greater than 12 months, unless the underlying asset is of low value.
- An expense is recognized for depreciation or amortization of assets for right of use and an interest expense on lease liabilities.
- It modifies the presentation of the related cash flows since the cash flow outflows of the operating activities are reduced, with an increase in the outflows of cash flow from the financing activities.
- Modifies the recognition of the gain or loss when a seller-lessee transfers an asset to another entity and leases that asset back.
- It is established that a lease liability in a sale-leaseback transaction must include both fixed payments and estimated variable payments and includes details of the procedure to be followed in accounting recognition.
- The accounting recognition by the lessor does not changed in relation to the previous Bulletin D-5, and only some disclosure requirements are added. such as the addition of clarifications to the disclosures for short-term and low-value leases for which a right-of-use asset was not recognized.
- Incorporates the possibility of using a risk-free rate to discount future lease payments and thus recognize the lease liability of a lessee. Restricts the use of the practical expedient to prevent significant, identifiable non-lease components from being included in the measurement of right-of-use assets and lease liabilities.

In the application of Mexican FRS D-5, the Commission establishes the following considerations:

The provisions of this FRS will not apply to credits granted by the Entity for financial leasing operations, being the subject of criterion B-6, with the exception of the provisions of paragraph 67 of said Criterion B-6.

For the purposes of the provisions of paragraph 42.1.4 subsection c) and subsection d) of Mexican FRS D-5, it will be understood that the term of the lease covers most of the economic life of the underlying asset, if said lease covers the least 75% of its useful life. Also, the present value of the lease payments is substantially the entire fair value of the underlying asset, if said present value constitutes at least 90% of said fair value.

Credit institutions that act as lessees in leases previously recognized as operating leases must initially recognize the lease liability in accordance with subparagraph a) of paragraph 81.4 of the Financial Information Standard D-5 "Leases", and the asset for right of use, in accordance with the provisions of numeral ii), subsection b) of paragraph 81.4 of Mexican FRS D-5.

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Operating leases

Accounting for the lessor

In the amount of the amortizations that have not been settled within a period of 30 calendar days following the due date of the payment, the lessor must create the relevant allowance, suspending the accumulation of income, including control thereof in memorandum accounts under "Other registration accounts". Lessor must present in the statement of financial position the account receivable under "Other registration accounts", and the rental income under "Other income (expenses)" of the transaction in the statement of comprehensive income.

The Bank's Management recognized in the Statement of Financial Position as of January 31, 2022, the initial effect due to the entry into force of this standard, which represents the recognition of an asset for right of use and a liability for leases for \$1,713.