COMPREHENSIVE RISK MANAGEMENT

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

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

The key UAIR objectives are the following:

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

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

I. Quantifiable risks are those for which it is possible to form statistical bases that allow measuring potential losses, and within these are the following:

1. Discretionary risks are those resulting from taking a risk position, such as:

    a) Market risk
    b) Credit risk
    c) Liquidity risk

2. Non-discretionary risks are those resulting from the operation of the business, but which are not the result of taking a risk position.

    a) Operational risk including:
        - Technological risk
        - Legal risk

II. Non-quantifiable risks, which are those derived from unforeseen events for which a statistical base cannot be established to measure potential losses.

(Mexican pesos in millions, except when otherwise indicated)

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

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

Market risk

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

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

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

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

As of the first quarter of 2023, the *Mesa de Dinero* portfolio had a position of 112,477 million pesos.

In order to show the behavior of VaR during 1Q 2023, the values at the end of the first quarter of 2023 are presented, as well as the comparison with the previous quarter, for each business unit of the portfolios shown.

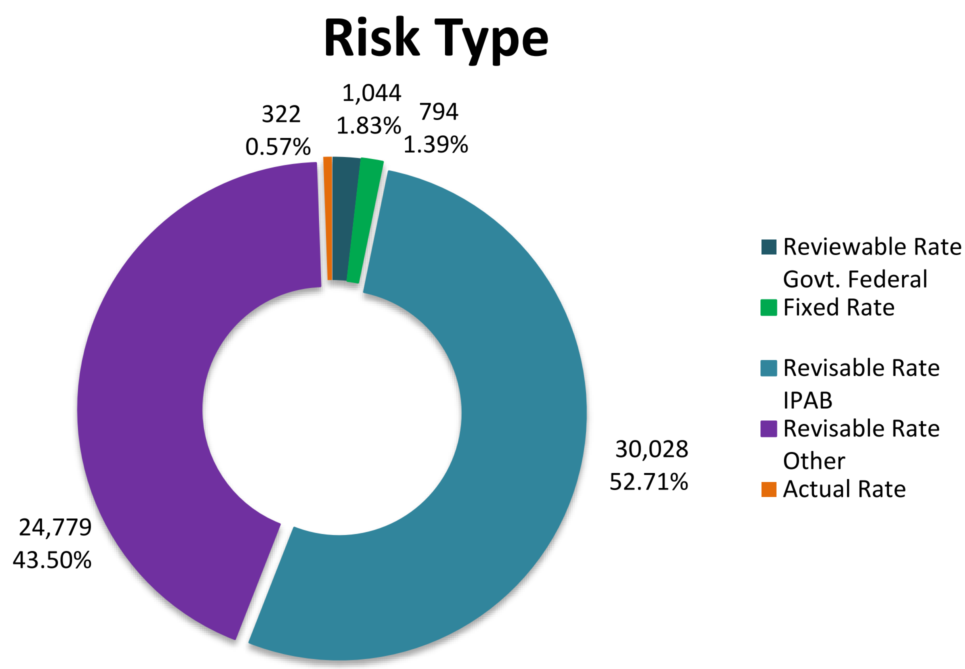
Trading Business Unit	VaR	
	31-Dec-22	31-Mar-23
Money Desk	(3.37)	(3.40)
Treasury	(5.55)	(5.14)
Global	**(5.38)**	**(3.99)**

Business Unit Held-to-maturity	VaR
	31-Mar-23
Treasury	(2.77)
Global	**(2.77)**

(Mexican pesos in millions, except when otherwise indicated)

The following graph shows the composition of the Total portfolio for Banca Afirme at the close of 1Q 2023 according to the Type of Risk:

Risk Type	Amount *
Revisable Rate Federal Government	1,044
Actual Rate	322
Revisable Rate IPAB	30,028
Revisable Rate Other	24,779
Exchange Rate	-
Fixed Rate	794
Total	**56,968**



Note: *Within the composition of the portfolio at the end of 1Q 2023, 1,044 MDP of the XR_BREMSR_251023 issuance are included, which is a reportable Monetary Regulation Bond from the Bank of Mexico, with the purpose of regulating liquidity in the money market.

(Mexican pesos in millions, except when otherwise indicated)

The average global VaR during the first quarter of 2023 was 5.27, which corresponds to 0.05% of net capital. Below is the average Value at Risk for the corresponding quarter for the different business units.

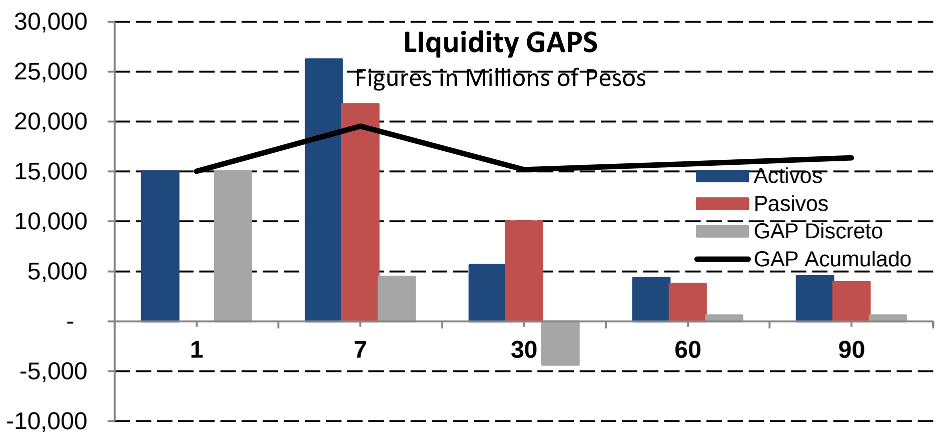
Trading Business Unit	Average VaR Jan 2023 - Mar 2023
Money Desk	(4.25)
Treasury	(4.75)
Global	**(5.27)**

Business Unit Held-to-maturity	Average VaR Jan 2023 - Mar 2023
Money Desk	-
Treasury	(2.68)
Global	**(2.68)**

Liquidity Risk

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

Banca Afirme accumulated 60-day band was $ 15,786 million pesos at the end of 1Q 2023, a level that respected the established limit. The bands per term up to 90 days would be as follows:



The Liquidity Coverage Ratio (LCR) is monitored on a daily basis, as the Supervisory Authority imposes a minimum to promote short-term resilience of the liquidity risk profile, ensuring that the Institution has sufficient high-quality liquid assets to overcome a significant stress scenario during a 30-day period.

As of March 31, 2023, the Liquidity Coverage Ratio is 174 % . In order to show the performance of the CCL, the values at the end of 1Q 2022 compared to the previous quarter are shown below.

(Mexican pesos in millions, except when otherwise indicated)

CCL Evolution	December 2022	March 2023
Computable Liquid Assets (Weighted)	27,454	29,617
Net 30-day outflows	17,055	16,978
CCL	**161%**	**174%**

Below is the evolution of Computable Liquid Assets compared to the immediately preceding quarter:

Evolution of Computable Liquid Assets (Unweighted)	December 2022	March 2023
Liquid Assets Level 1	27,454	29,181
Liquid Assets Level 2	-	513
Total Liquid Assets	**27,454**	**29,617**

As of December 30, 2022, the Net Stable Funding Ratio is 140.20%.

Net Stable Funding Ratio	September 2022	December 2022
Amount of Stable Financing Required	53,746	57,035
Amount of Stable Financing Available	74,936	79,979
CFEN	**139%**	**140%**

The liquidity-adjusted market VaR is interpreted as the loss incurred by the bank for the time it would take to liquidate the securities position in the market, for which the liquidity-adjusted VaR is estimated as the product of the daily market VaR times the square root of 10.

In order to show the behavior of the VaR adjusted for liquidity, the values at the end of 1Q 2023 compared to the previous quarter are presented below.

Trading Business Unit	VaR adjusted for liquidity	
	30-Dec-2022	Mar 31, 2023
Money Desk	(10.67)	(10.76)
Treasury	(17.55)	(16.25)
Global	**(17.02)**	**(12.62)**

Below is the average Value at Risk adjusted for liquidity of the monthly closings of the corresponding quarter of the different business units.

Trading Business Unit	VaR adjusted for average liquidity
	jan 2023 - mar 2023
Money Desk	(13.43)
Treasury	(15.02)
Global	**(16.65)**

In general, the financing needs of the Institution's loan portfolio are covered by traditional fundraising; however, other liquidity elements are maintained in case they are required, such as lines of credit and the capacity to issue bank paper in the market, with no legal, regulatory or operational limitations.

Traditional Capture March 31, 2023	
Demand deposits	38,960
Time deposits	40,652
Debt Securities Issued	-
Capture without movement	93
Total	**79,705**

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

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

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

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

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

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

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

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

The monitoring of the different indicators mitigates the liquidity risk since these indicators induce the diversification of the deposits, to extend the term of the same, increase the liquid assets and punish the concentration both in term and in clients and the reduction of the liquid assets.
Stress tests consist of applying scenarios where there are situations that could be adverse for the Institution and thus being able to verify the Institution's capacity to face the realization of said scenarios. In the particular case of liquidity risk, scenarios are made based on variables characteristic of financial crises that affect the liquidity of banks in general. This evidence is presented to the Risk Policy Committee on a monthly basis for analysis. The variables used to build adverse scenarios are overdue portfolio, interest rates and sources of financing, mainly.

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

Credit risk

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

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

The objectives of Credit Risk Management at Banca Afirme are:

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

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

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

(Mexican pesos in millions, except when otherwise indicated)

The result of our Exposure, Expected Loss with *Recoverability* (Recovery Factor) and Credit VaR with *Recoverability* at the end of 1Q 2023 is as follows:

VaR as of March 31, 2023

Portfolio	Exposition	Expected Loss (Without Recover)	Recover	Expected Loss (With Recover)	VaR @ 99% (With Recover)
Commercial	35,835	3,848	64%	1,372	2,728
Mortgage	11,769	1,022	94%	64	84
Personal Loans	4,256	496	22%	388	441
Credit Card	1,107	189	26%	140	151
Autoplazo	4,100	175	42%	101	121
Total	**57,067**	**5,730**		**2,064**	**3,526**

*VaR @99% [Credit Risk + Methodology] *VaR @99% [Credit Risk + Methodology] *VaR @99% [Credit Risk + Methodology].*

As can be observed, the VaR stood at $3,526 million, which represented a consumption of 117.5% of the authorized limit of $3,000 million. It should be noted that any excess is notified to the Board through the Institution's collegiate bodies, where it is determined whether the excess is acceptable or not.

Below is the composition of Banca Afirme portfolio as of March 31, 2023, according to the credit quality of the various counterparties:

Credit Quality Exposure
(Emissions and derivatives)

Instrument	Sovereign Risk	Development Banking Risk	Non-Sovereign Risk
Fixed Rate	794	-	-
Reviewable Rate Govt. Federal	1,044	-	-
Revisable Rate IPAB	30,028	-	-
Actual Rate	59	263	-
Revisable Rate Other	-	14,332	10,447
Total	**31,925**	**14,596**	**10,447**

Note: Within the composition of the portfolio as of the end of 1Q 2023, 1,044 million pesos from the XR_BREMSR_251023 issuance are considered. This issuance is a Reportable Monetary Regulation Bond issued by the Bank of Mexico with the purpose of regulating liquidity in the money market.

Rating of Non-Sovereign Risk Issues			
Rating agency			Market Value
Fitch	S&P	Moodys	
AAA (mex)	mxAAA	AAA.mx	476
F1+ (mex)	mxA-1+	ML A-1+	966
Total			1,443

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

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

Interest rate risk

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

In this regard, applying the aforementioned methodology, as of the end of March 2023, there is a sensitivity that in the event of a 50 basis points increase in the interest rate (TIIE), there would be a loss of 0.5 million pesos. Assuming symmetry, a 50 basis points reduction would have the opposite effect.

Non-Discretionary Risk Management

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

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

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

The following table shows a summary of the authorized tolerance level and the amount of risk actually materialized as of March 31, 2023

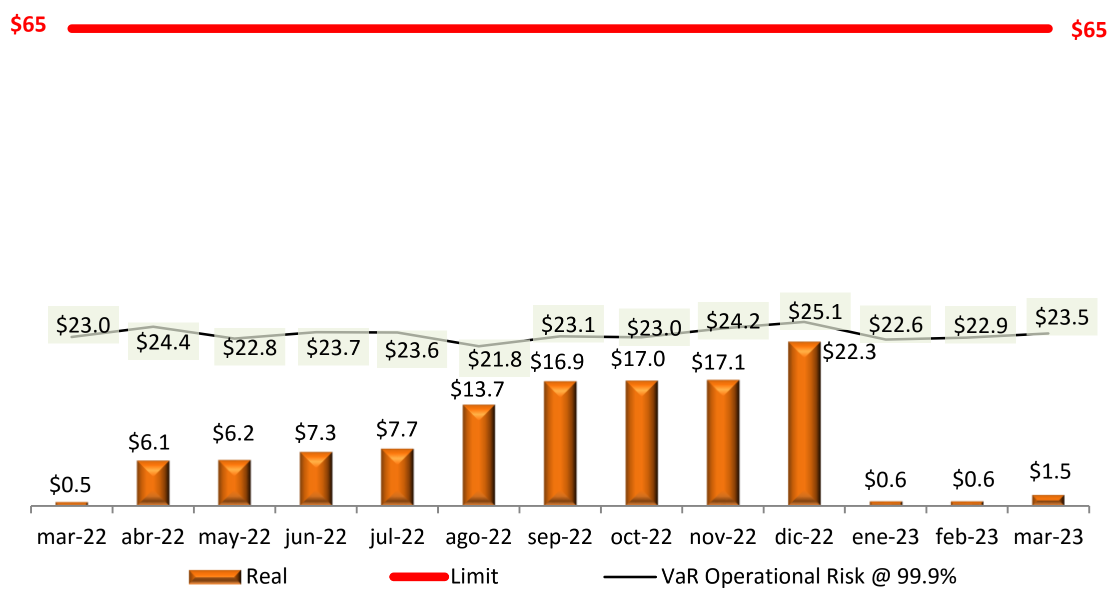
Table Tolerance Level

Total Authorized Level In millions	Real In millions
$65.0	$1.5

The average monthly amount for the last twelve months is $ 1.9 million pesos and incorporates the three types of non-discretionary risk mentioned above.

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

Operating VaR Chart



Figures in Millios of Pesos

Operating Risk VaR has been estimated at $23.5 million at a 99.9% confidence level at the end of 1Q 2023. According to the risk events that materialized, the real losses stood at $ 1.5 million pesos and represents 2.25% of the level authorized by the Board.

Non Quantifiable Risk Management

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

At the end of 1Q 2023, there were no incidents of this nature, and therefore the Institution's business operations continued as usual. In addition, it is important to note that the institution has coverage of non-quantifiable risks through insurance policies that are reviewed annually and has established a contingency plan called "Disaster Recovery Plan" that provides for mitigating the effects of a force majeure event.

(Mexican pesos in millions, except when otherwise indicated)

Main indicators of assets at risk

Based on the Law of Credit Institutions, Banxico requires credit institutions to have a minimum percentage of capitalization over assets at risk. The required capitalization percentage is 10.5 percent.

As of March 31, 2023, the Institution had satisfactorily complied with this requirement. Assets at risk and capitalization index are presented below.

	1TQ2023*	4Q 2022	Variation
Assets at Credit Risk	47,030.5	47,658.5	-1.32%
Market Risk Assets	6,446.2	5,343.3	20.64%
Assets at Operational Risk	7,730.9	7,478.0	3.38%
Total Assets at Risk	61,207.5	60,479.8	1.20%
Basic Capital	7,225.0	6,995.6	3.28%
Supplemental Capital	2,533.8	2,536.9	-0.12%
Net Equity	9,758.8	9,532.6	2.37%
Capitalization Index	**15.9%**	**15.8%**	**1.16%**

*Information before Banxico's aftershocks.

Portfolio Rating:

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

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

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

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

Degree of Risk	March 2023		December 2022	
	Portfolio	Reserves	Portfolio	Reserves
A-1	41,251	198	41,201	200
A-2	5,135	73	5,071	71
B-1	2,608	62	2,635	64
B-2	1,575	50	2,181	60
B-3	936	40	666	32
C-1	1,821	159	1,721	151
C-2	1,090	119	1,060	116
D	2,149	715	2,778	886
E	1,744	1,202	1,517	1,049
Except	0	0	0	0
Total	**58,309**	**2,618**	**58,830**	**2,629**

Figures in millions of pesos

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

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

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

- Current portfolio - risk stage 1 and risk stage 2 - Reserve expected loss
  - $\boldsymbol{Reservas\ Etapa\ 1\ o\ 3_i = PI_i^X \times SP_i^X \times EI_i^X}$
- Overdue portfolio - risk stage 3 - takes the maximum value between the expected loss Reserve and full life reserve
  - $\boldsymbol{Reservas\ Etapa\ 2_i = Max\left(Reservas\ Vida\ Completa_i\,, PI_i^X \times SP_i^X \times EI_i^X\right)}$

<u>Commercial portfolio</u>

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

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

<u>Portfolio to Companies:</u>

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

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

<u>Portfolio to Financial Institutions:</u>

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

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

Credits to Federative Entities, Municipalities and their Decentralized Organizations:

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

Housing mortgage portfolio

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

Consumer loans

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

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

Likewise, the modifications of the new methodology for rating and calculating the allowance for loan losses published on March 13, 2020 were applied.

The following is the portfolio rating table for the Bank's total portfolio with figures as of March 31, 2023:

Risk Grades	COMMERCIAL PORTFOLIO		Housing Portfolio		Non-Revolving Consumer Portfolio		Revolving Consumer Portfolio: Credit Card		TOTAL PORTFOLIO	
	Portfolio	Reserves	Portfolio	Reserves	Portfolio	Reserves	Portfolio	Reserves	Portfolio	Reserves
A-1	26,408	114	9,172	13	5,301	44	370	27	41,251	198
A-2	3,807	42	564	4	526	13	238	14	5,135	73
B-1	1,279	21	283	2	935	31	111	8	2,608	62
B-2	714	16	240	3	573	26	48	5	1,575	50
B-3	486	16	107	2	298	17	45	5	936	40
C-1	1,231	117	127	4	393	28	70	10	1,821	159
C-2	54	7	526	42	414	45	96	25	1,090	119
D	1,273	483	476	108	307	67	93	57	2,149	715
E	1,067	778	208	117	437	279	32	28	1,744	1,202
Except	0	0	0	0	0	0	0	0	0	0
Total Rated Portfolio	**36,319**	**1,594**	**11,703**	**295**	**9,184**	**550**	**1,103**	**179**	**58,309**	**2,618**
Other Concepts:										
Interest collected in advance	-96	0	0	0	0	0	0	0	-96	0
Qualified Contingent Credits Adjustment (Letters of Credit and Guarantees Granted)	-1,051	0	0	0	0	0	0	0	-1,051	0
Total	**35,172**	**1,594**	**11,703**	**295**	**9,184**	**550**	**1,103**	**179**	**57,162**	**2,618**
Rated Loan Portfolio without Contingencies	**35,268**	**1,594**	**11,703**	**295**	**9,184**	**550**	**1,103**	**179**	**57,258**	**2,618**

Additional Reservations		**56**
Total Reserves Balance		**2,674**

Figures in millions of pesos

The following table shows the movement of the 1rd. quarter of fiscal year 2023 of the Bank's estimated allowance for loan losses on the Bank's portfolio:

Portfolio Segment	Movement of reserves					
	Balance at the beginning of the quarter (Balance Reserve)	Creation of reservations	Applications by: Penalties and Remissions	Other Movements Recovery/Special Creations	Variation by exchange rate	Balance at the end of the quarter (Balance Reserve)
COMMERCIAL PORTFOLIO	1,649	-55	0	0	0	1,594
Housing Portfolio	283	12	0	0	0	295
Non-Revolving Consumer Portfolio	531	176	-157	0	0	550
Revolving Consumer Portfolio: Credit Card	167	46	-34	0	0	179
Additional Reservations	55	2	0	0	0	57
Total quarter end	**2,684**	**182**	**-192**	**0**	**0**	**2,674**

Figures in millions of pesos

The estimated preventive reserves for the commercial portfolio by economic sector as of December 31, 2022, and March 31, 2023 are presented below:

Economic Sector	Reserve Balance December 2020	Book Balance Mar2023
Mining and Petroleum	484	493
Trade	403	406
Services	242	239
Electricity and Water	181	111
Construction	102	106
Others	237	239
Total	**1,649**	**1,594**

Figures in millions of pesos

The following table presents a comparison as of March 31, 2023, of credit risk exposures, reported credit reserves, and those derived from gross exposures, without considering the effects of credit risk hedging techniques, broken down by the main types of credit portfolio:

Concept:	Portfolio	Exposure to Default	Reserves	Bookings *	Gross Exposures
Portfolio to Companies with sales of less than 14 million UDIs	9,931	9,931	783	862	9,069
Portfolio to Companies with sales over 14 million UDIs	22,670	22,670	787	1,410	21,260
Portfolio to Government Sector Entities	2,429	2,429	22	26	2,403
Portfolio to Financial Institutions	238	238	2	2	237
Total Commercial Loan Portfolio	**35,268**	**35,268**	**1,594**	**2,300**	**32,969**
Housing Portfolio	11,703	11,703	295	295	11,408
Non-Revolving Consumer Portfolio: Auto	9,184	9,184	550	550	8,634
Revolving Consumer Portfolio: Credit Card	1,103	2,113	179	179	1,934
Total Loan Portfolio	**57,258**	**58,268**	**2,618**	**3,324**	**54,945**

* Reserve without considering risk mitigants
Figures in millions of pesos

The geographical distribution of credit exposures is presented below, broken down into the main states, with figures as of March 31, 2023:

State	COMMERCIAL PORTFOLIO	Housing Portfolio	Non-Revolving Consumer Portfolio	Revolving Consumer Portfolio: Credit Card	Total Loan Portfolio
Nuevo León	24,662	3,772	2,771	532	31,737
Mexico City	2,181	1,462	686	69	4,398
Coahuila	1,214	658	1,061	96	3,029
Jalisco	1,455	824	472	35	2,786
Michoacán	996	383	464	43	1,886
Others	4,760	4,604	3,730	328	13,422
Total	**35,268**	**11,703**	**9,184**	**1,103**	**57,258**

Figures in millions of pesos

The following table shows the distribution by economic sectors of the exposures of the commercial portfolio, with figures as of March 31, 2023:

Economic Sector	COMMERCIAL PORTFOLIO
Trade	9,969
Services	7,334
Electricity and Water	4,991
Construction	3,275
Manufacturing	2,430
GOVERNMENT ENTITIES	2,429
Others	4,840
Total	**35,268**

Figures in millions of pesos

The following is the distribution by remaining terms of credit exposures, with figures as of March 31, 2023:

Deadline to expire	COMMERCIAL PORTFOLIO	Housing Portfolio	Non-Revolving Consumer Portfolio	Revolving Consumer Portfolio: Credit Card	Total Loan Portfolio
Loans with past due terms	1,773	2	52	0	1,827
From 1 to 184 days	9,189	8	1,090	0	10,287
From 185 to 366 days	1,965	3	331	0	2,299
From 367 to 731 days	1,335	17	975	0	2,327
From 732 to 1,096 days	3,710	38	1,873	0	5,621
From 1,097 to 1,461 days	2,151	71	2,101	0	4,323
From 1,462 to 1,827 days	2,570	107	2,405	0	5,082
More than 1,827 days	12,575	11,457	357	1,103	25,492
Total	**35,268**	**11,703**	**9,184**	**1,103**	**57,258**

Figures in millions of pesos

The following table shows the aging of the stage 3 portfolio of the Bank's total portfolio as of March 31, 2023:

Range of days past due	COMMERCIAL PORTFOLIO	Housing Portfolio	Non-Revolving Consumer Portfolio	Revolving Consumer Portfolio: Credit Card	Total
Delinquent from 1 to 180 days	380	164	193	24	761
Delinquent from 181 to 365 days	733	77	33	0	843
Delinquency greater than 365 days	1,162	463	4	0	1,629
Total past due portfolio	**2,275**	**704**	**230**	**24**	**3,233**

Figures in millions of pesos

Below is the Bank's commercial portfolio classified in Stage 1, Stage 2 and Stage 3 with figures as of March 31, 2023, classified by risk grade, federal entities and economic sectors:

Current, Overdue, and Troubled Commercial Portfolio by degree of risk:

Risk level	Commercial Portfolio Stages 1 and 2						Stage 3 Commercial Portfolio		Total Portfolio	
	Stage 1 Commercial Portfolio		Stage 2 Commercial Portfolio		Total Commercial Portfolio Stages 1 and 2		Stage 3 Commercial Portfolio			
	Portfolio	Bookings	Portfolio	Bookings	Portfolio	Bookings	Portfolio	Bookings	Portfolio	Bookings
A-1	25,418	114	0	0	25,418	114	0	0	25,418	114
A-2	3,760	42	0	0	3,760	42	0	0	3,760	42
B-1	1,267	21	0	0	1,267	21	0	0	1,267	21
B-2	714	16	0	0	714	16	0	0	714	16
B-3	486	16	0	0	486	16	0	0	486	16
C-1	214	16	17	1	231	17	1,000	100	1,231	117
C-2	27	3	17	2	43	6	10	1	53	7
D	53	11	998	389	1,051	400	221	83	1,272	483
AND	7	4	17	8	24	12	1,044	766	1,067	778
Excepted	0	0	0	0	0	0	0	0	0	0
Total	**31,944**	**242**	**1,049**	**401**	**32,993**	**643**	**2,275**	**951**	**35,268**	**1,594**

Amounts in millions of pesos

Current, Overdue, and Troubled Commercial Portfolio by State:

Federal entity	Commercial Portfolio Stages 1 and 2						Stage 3 Commercial Portfolio		Total Portfolio	
	Stage 1 Commercial Portfolio		Stage 2 Commercial Portfolio		Total Commercial Portfolio Stages 1 and 2		Stage 3 Commercial Portfolio			
	Portfolio	Bookings	Portfolio	Bookings	Portfolio	Bookings	Portfolio	Bookings	Portfolio	Bookings
Aguascalientes	111	1	0	0	111	1	61	41	172	42
Baja California	841	4	0	0	841	4	3	2	843	6
Campeche	7	0	0	0	7	0	0	0	7	0
Chihuahua	279	1	0	0	279	1	15	12	294	14
Mexico City	1,882	10	15	5	1,898	15	283	209	2,181	224
Coahuila	1,142	10	23	9	1,165	19	49	31	1,214	51
Colima	454	3	3	1	457	4	5	4	462	8
Durango	36	1	1	0	37	1	1	0	37	2
Mexico state	326	3	25	5	351	8	52	42	404	50
Guanajuato	320	2	4	1	324	3	6	3	329	6
Warrior	400	3	3	1	403	4	12	10	415	13
Jalisco	1,360	10	5	1	1,364	10	91	64	1,455	74
Michoacan	978	10	3	1	981	11	15	10	997	21
Morelos	21	0	1	0	22	0	8	6	30	7
New Leon	22,148	163	947	373	23,095	537	1,567	439	24,662	976
Puebla	120	2	3	1	123	4	12	7	136	11
Queretaro	239	6	1	0	239	6	21	17	261	22
Quintana Roo	50	0	0	0	50	0	5	4	55	4
San Luis Potosi	259	4	2	1	261	4	7	4	268	8
Sinaloa	207	2	0	0	207	2	19	10	226	12
Sonora	78	1	0	0	78	1	4	3	82	3
Tamaulipas	385	4	10	2	395	6	40	32	435	38
Yucatan	302	1	2	0	304	1	0	0	304	1
Total	**31,944**	**242**	**1,049**	**401**	**32,993**	**643**	**2,275**	**951**	**35,268**	**1,594**

Amounts in millions of pesos

Current, Overdue and Troubled Commercial Portfolio by Economic Sector:

Economic sectors	Commercial Portfolio Stages 1 and 2						Stage 3 Commercial Portfolio		Total Portfolio	
	Stage 1 Commercial Portfolio		Stage 2 Commercial Portfolio		Total Commercial Portfolio Stages 1 and 2		Stage 3 Commercial Portfolio			
	Portfolio	Bookings	Portfolio	Bookings	Portfolio	Bookings	Portfolio	Bookings	Portfolio	Bookings
AGRICULTURE	249	3	0	0	249	3	23	16	273	19
TRADE	9,533	90	38	12	9,571	102	398	304	9,969	406
CONSTRUCTION	3,114	29	18	7	3,132	36	143	70	3,275	106
ELECTRICITY AND WATER	3,990	11	0	0	3,990	11	1,001	100	4,991	111
FINANCIAL INSTITUTIONS	238	2	0	0	238	2	0	0	238	2
GOVERNMENTAL ENTITIES	2,429	22	0	0	2,429	22	0	0	2,429	22
MANUFACTURING	2,308	15	26	6	2,333	20	97	70	2,430	90
MINING AND PETROLEUM	225	1	879	354	1,105	355	263	138	1,368	493
SERVICES	7,015	49	86	22	7,102	71	232	168	7,334	239
REAL ESTATE SERVICES AND LEASING	2,089	16	0	0	2,089	16	23	18	2,113	34
RANSPORTATION AND COMMUNICATIONS	754	5	1	0	755	5	95	66	850	71
Total	**31,944**	**242**	**1,049**	**401**	**32,993**	**643**	**2,275**	**951**	**35,268**	**1,594**

Amounts in millions of pesos

The following table shows the movement in the 1st quarter of fiscal year 2023 of the Bank's Stage 3 commercial portfolio allowance for loan losses:

Concept:	Mar'2023
Balance at beginning of quarter	$887
Creation of reservations (current or previous period)	63
Applications by: Penalties and Remissions	0
Balance at the end of the quarter	**$951**

Recoveries recorded during the quarter of written-off loans	-17

Figures in millions of pesos

Risk mitigation techniques

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

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

- **Real Guarantees.-** They are those that are constituted on property (movable or immovable) or rights, concrete and determined. They are rights that assure the creditor the fulfillment of the main obligation through the special bond of a good. As a consequence of this special link, in the event of a breach of the guaranteed obligation, the creditor can realize the economic value of the asset through a regulated procedure and be collected with the amount obtained, the preference in the collection in this way being opposable over the rest of creditors.

- **Personal guarantees**.- These confer on the creditor a right of a personal nature or a power that is directed to the guarantor's own assets. The Personal Guarantee is the one that contributes or is derived from a natural or legal person, by virtue of the personal credit that it inspires or deserves.

Real Guarantees:

- The real guarantee is the one based on tangible assets, which the subject of the Credit grants to respond for the obligation contracted with the Credit.

- The collateral that supports a credit operation should be analyzed with respect to the following:

  a. Degree of cash convertibility

  b. Tax aspects that may affect your award

  c. Considering the nature of the asset given as collateral, an Appraisal must be obtained, which should preferably be prepared by a Valuation Expert authorized by the Institution, or a different Appraisal may be accepted in accordance with the established procedures; Likewise, in the case of guarantees located in places where there are no registered Afirme Grupo Financiero experts, the Appraisal prepared by third parties may be used, which could be validated by the Internal Appraisal Area if deemed necessary.

Main Guarantees accepted by the Institution:

Real Guarantees:

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

- **Pledge.-** The Pledge Guarantee of movable property must be established in accordance with the provisions of article 334 of the General Law of Titles and Credit Operations. The transmission of possession depends on the nature of the object good. The Credit Pledge may be authorized in books, which must be contained in the Credit Agreement and it must be stated that the Credits granted in Pledge are listed in notes or lists duly signed by the representatives of the borrower or the third guarantor.

- **Fiduciary**.- The patrimony of the Administration and Payment and Guarantee Trusts can be cash, real estate, furniture, accounts receivable, credit rights, etc.

- **Guarantee with Irrevocable Mandate**.- Liability in charge of the Institution (except at sight) or of any Credit Institution or Holding Companies, formalized through a trust, which are granted to support a Credit operation or, liability in charge of the Institution (except at sight) with Irrevocable Mandate on money of the Institution.

- **Insurance**.- These are contracts that are entered into with the Insurance Companies, which by paying a premium, are obliged to compensate for damage or to pay a sum of money in the event that the loss foreseen in the contract occurs.

- **Letter of Guarantee**.- It is the commitment that a company based abroad acquires to cover the Institution's capital, interests and expenses related to Credits granted to a subsidiary or subsidiary of the former, located in national territory, in the event that it incurs in the breach of its obligations. The foregoing when permitted by the Legal Provisions, requesting a review of said Letter of Guarantee from the Legal Area.

- **Participations in Federal Revenues.-** These are resources periodically received by the state and municipal governments from the national collection of federal revenues.

Personal Guarantees:

- **Guarantee.-** It is a unilateral declaration of the will of a natural or legal person to guarantee by signing the total or partial payment of a Credit title.

- **Solidarity Debt and / or Solidarity Bond.-** It is a document in which a person jointly and severally undertakes to guarantee the debts that the borrower contracts with the Institution, which is formalized through a contract.

- **Bond.-** It is a contract by which a person agrees with the creditor to pay for the debtor if he does not do so. It is an accessory contract in which a creditor, a principal debtor and a guarantor intervene through a contractual relationship. It is a contract by virtue of which a surety institution undertakes to guarantee compliance with obligations with an economic content, contracted by a natural or legal person before another private or public natural or legal person, in the event that that person does not comply.

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

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

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

Guarantee Type	% Guarantee
Financial collateral	
- Liquida	2.44%
- BMV Shares	2.54%
Non-Financial Guarantees	
- Trusts	56.67%
- Mortgages	24.14%
- Pledge : Certificates	4.84%
- Other	2.05%
Personal Guarantees	
- Insurance Companies and Others	2.20%
- Development Banking	5.12%
Total	**100.00%**

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

Commercial Portfolio:

Guarantee Type	Indoor exhibition
Financial collateral	852
Non-Financial Guarantees	15,005
Guarantees granted by the Development Banks	876
Personal and Other Guarantees	376

Figures in millions of pesos