

# Management Report

## BANCA AFIRME

September 2023

*Hoy creamos*

*Hoy creamos*

EMPIEZA A IMAGINARLO

 **AFIRME**  
El Banco de Hoy

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

### OPERATING RESULTS.

Comparative analysis of the period ending September 30, 2023 compared with the period ending September 30, 2022.

At the end of the third quarter of 2023, Banca Afirme's profit totaled 101.2 million pesos, 4.9% lower than the previous year. This decrease is the result of the increase in reserves, to a lesser extent the financial margin, among other factors that will be analyzed later.

### FINANCIAL MARGIN ANALYSIS

#### *YIELDS GENERATED BY THE CREDIT PORTFOLIO*

At the end of the third quarter of 2023, the interest generated by the credit portfolio amounts to 2,160.9 million pesos, an increase of 21.1% compared to the same period of the previous year. This is due, on one hand, to the behavior of the TIIE benchmark interest rates, which went from 8.88% to 11.50% from September 2022 to September 2023, and on the other hand, the increase in the stage 1 portfolio, which increased by 8.41%, and the stage 2 portfolio decreased by 38.20%. Together, this represents an increase of 3,949 million pesos, or 7.4%.

Credit Portfolio Interests	III Q 22	II Q 23	III Q 23	Variation	% Var.
Business Credits	956.1	1,055.2	1,094.1	138.1	14.4%
Consumer loans	545.5	642.6	691.6	146.1	26.8%
Home loans	219.3	253.1	267.9	48.6	22.2%
Credits for Gubernamental Entities	46.7	70.7	94.2	47.5	101.6%
Credits for Financial Entities	17.1	11.4	13.1	4.0.	-23.4%
<b>Totals</b>	<b>1,784.7</b>	<b>2,033.0</b>	<b>2,160.9</b>	<b>376.2</b>	<b>21.1%</b>

During the mentioned period, commissions for credit operations show a decrease of 9.3% annually.

Commissions received for Credit Operations	III Q 22	II Q 23	III Q 23	Variation	% Var.
Business Credits	14.6	13.0	13.9	(0.7)	-4.9%
Consumer loans	32.9	32.7	31.7	(1.2)	-3.6%
Home loans	6.0	4.6	2.9	3.0	-51.1%
Credits for Gubernamental Entities	0.1	0.1	0.1	(0.0)	-32.8%
<b>Totals</b>	<b>53.6</b>	<b>50.3</b>	<b>48.6</b>	<b>5.0</b>	<b>-9.3%</b>

**INCOME FROM INVESTMENTS IN SECURITIES, REPO TRANSACTIONS AND CASH AND CASH EQUIVALENTS.**

In the third quarter of 2023, the rewards, interest, and premiums for investments significantly increased due to the significant rise in interest rates, as in the third quarter of 2022 the rates were at 8.88% vs 11.50% this year.

Since the end of the second quarter of 2023, positions in securities have significantly increased as a profitability strategy of the Institution.

As a relevant strategy in our Bank, we continue with liquidity to be able to respond to possible unexpected events and market stability, the above coupled with the rise in reference rates causes an increase of 79.9% in the interest charged, mainly explained in the charge for negotiable securities that grew by 188.6%.

The only item that decreased was the interest charged for repo purchases, which is explained by a decrease in volume, which, although it impacts interest income, is offset by a decrease in the interest payment of these same repos that were sold at very similar levels. Given the increase in position, the amount of purchases has decreased.

Premium, interests and premium derivatives from securities and investments	III Q 22	II Q 23	III Q 23	Variation	% Var.
Not restricted titles to negotiate	1,559.6	2,645.4	4,501.5	2,941.9	188.6%
Cash and cash equivalents	104.2	209.5	174.4	70.2	67.4%
<b>Restricted and Repurchase Titles</b>					
Interests CHarged and premiums in favor for repurchase operations	1,556.6	2,190.8	1,098.8	457.8	-29.4%
Income from covered operations	32.0	44.9	76.8	44.8	139.9%
<b>Totals</b>	<b>3,252.3</b>	<b>5,090.6</b>	<b>5,851.5</b>	<b>2,599.2</b>	<b>79.9%</b>

## **PRIZES AND INTEREST DERIVED FROM THE CAPTURE OF**

In the third quarter of 2023, interest expenses show a growth of 78.1% in relation to the same period of the previous year, this increase is largely due to the interest and premiums on repos, which have a variation of 89.0%, explained by the rise in interest rates, mentioned in the previous paragraphs, and by the increase in reported positions. On the other hand, term deposits have increased by 68.1%, mainly due to the increase in rates, but also due to the growth in the balance of this item on the Balance Sheet.

The increase in the mentioned balance was due to the strategy that the Institution has maintained to increase its term deposits in order to have an even more robust liquidity and give the Institution the capacity for growth. It is expected that in the near future paid interest will continue to grow due to the increase in the balance size, no longer influenced by increases in the level of rates achieved.

<b>Expenses from interests</b>	<b>III Q 22</b>	<b>II Q 23</b>	<b>III Q 23</b>	<b>Variation</b>	<b>% Var.</b>
Immediate demand deposits	368.0	474.6	561.5	193.5	52.6%
Fixed term deposits	709.8	1,153.4	1,193.4	483.6	68.1%
Interbank loans and loans from other institutions	116.8	138.7	173.4	56.7	48.5%
Interests for subordinated liabilities	86.9	124.4	126.2	39.4	45.3%
Bursatile debt	49.6	35.6	48.5	1.0	-2.1%
Interests and premiums from repurchase	2,426.8	3,969.7	4,586.7	2,160.0	89.0%
Expenses from covered operations	9.3	9.2	38.8	29.5	318.2%
Interest from global accounts of funds raised	(0.3)	0.0	(1.1)	0.8	277.6%
Interest expenses on leases	27.2	52.0	43.0	15.7	57.8%
Others	29.7	34.7	39.5	9.8	32.8%
<b>Totals</b>	<b>3,823.8</b>	<b>5,992.3</b>	<b>6,810.0</b>	<b>2,986.2</b>	<b>78.1%</b>

## **FINANCIAL MARGIN RESULT**

Based on what was explained in the previous points, the actions taken have allowed the margin to stabilize since the third quarter of 2022, as there were extraordinary revenues that year which have been offset by the increase in positions in 2023. In any case, the margin generated remains very satisfactory for the Institution.

<b>FINANCIAL MARGIN</b>	<b>III Q 22</b>	<b>II Q 23</b>	<b>III Q 23</b>	<b>Variation</b>	<b>% Var.</b>
Total of interests charged	5,090.6	7,173.9	8,061.0	2,970.4	58.4%
Total of interests paid	3,823.8	5,992.3	6,810.0	2,986.2	78.1%
<b>FINANCIAL MARGIN</b>	<b>1,266.8</b>	<b>1,181.6</b>	<b>1,251.0</b>	<b>-15.8</b>	<b>-1.2%</b>

## **NON-FINANCIAL INCOME**

### **COMMISSIONS AND FEES DERIVED FROM THE PROVISION OF SERVICES**

At the end of the third quarter of 2023, the commissions and fees charged show an increase of 28.6% compared to the same period of the previous year. This variation is mainly due to the commissions charged in electronic banking, which show an increase of 22.9% as a result of the increase in electronic banking transactions, highlighting operations in POS terminals. The fiduciary activities item increases by 202.8%, and the commissions for insurance increase by 147.6% due to a higher placement of these services.

<b>Commissions and Fees Charged</b>	<b>III Q 22</b>	<b>II Q 23</b>	<b>III Q 23</b>	<b>Variation</b>	<b>% Var.</b>
Credit operations	10.0	9.4	6.2	3.7	-37.3%
Funds transfer	7.9	7.4	7.8	0.1	-1.5%
Trust Companies Activities	29.4	22.0	88.9	59.5	202.8%
Appraisals	2.6	3.1	3.0	0.5	18.8%
Account Management	16.2	14.3	14.6	(1.6)	-9.6%
Electronic Banking	586.2	690.3	720.5	134.3	22.9%
Guarantee	0.2	0.2	0.4	0.2	117.0%
Right to severance pay	19.7	21.5	19.9	0.2	1.2%
Insurance	36.1	61.5	89.5	53.3	147.6%
Financial Advisory	0.2	0.1	0.2	(0.0)	-9.7%
Other commissions and duties	145.2	144.3	146.3	1.1	0.8%
<b>Totals</b>	<b>853.6</b>	<b>974.1</b>	<b>1,097.4</b>	<b>243.8</b>	<b>28.6%</b>

### **RESULT BY INTERMEDIATION**

There was a smaller impact from buying and selling in the third quarter of 2023, mainly in Negotiable Securities, as the market has stabilized the rates and there have been no increases from the Central Bank during this quarter,

given the market's change in perception regarding the future of reference rates and that the position in securities, instead of decreasing as in past periods, has increased.

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

RESULT BY INTERMEDIATION	III Q 22	II Q 23	III Q 23	Variation	% Var.
<b>Valuation Results to Fair Market Value and Reduction of Titles valued at cost</b>	<b>7.0</b>	<b>4.9</b>	<b>1.3</b>	<b>(5.7)</b>	<b>-81.5%</b>
Titles to negotiate	7.0	4.9	1.3	(5.7)	-81.5%
Derivatif instruments with coverage purposes	0.0	0.0	0.0	0.0	0.0%
<b>Results from Sales and Purchase of Securities and Foreign Exchange</b>	<b>-24.2</b>	<b>45.8</b>	<b>14.6</b>	<b>38.8</b>	<b>160.5%</b>
Titles to negotiate	(64.6)	8.0	22.1	42.5	-65.8%
Results for Sales and Purchase of Currency	40.4	37.8	36.7	3.7	-9.3%
<b>Totals</b>	<b>(17.1)</b>	<b>50.7</b>	<b>15.9</b>	<b>33.1</b>	<b>192.8%</b>

#### **OTHER OPERATING INCOME (EXPENSE)**

For the closing of the third quarter of 2023, the item of other income (expenses) from the operation shows an increase of 168.1 million pesos compared to the same period of the previous year, representing an 89.0%, mainly explained by the IPAB variation item which decreases 138.9 million pesos due to the reclassification that was made the previous year during the third quarter. The item of other + funds increases by 275.2%, mainly because this item records the BIN sponsor operations which have had a significant increase. On the other hand, the write-off of creditor accounts increases the item of write-off of accounts payable by 32.4 million pesos.

Other Income (Expenses) of the Net Operation	III Q 22	II Q 23	III Q 23	Variation	% Var.
Recoveries	26.7	16.6	14.0	12.6	-47.3%
Debugging accounts payable	(1.0)	48.6	31.4	32.4	3,393.8%
Result from operating lease	1.4	(15.5)	(33.6)	32.1	2,225.8%
Collection of written-off credits	33.0	42.8	32.7	0.3	-0.9%
Release of reserves	0.0	0.0	0.0	0.0	0.0%
Release of reserves from other debts	2.2	0.1	0.0	(2.2)	-100.0%
Sale of furniture and real estate	6.4	3.6	17.7	11.3	177.1%

Bond from the use of Debit and Credit Cards	5.3	4.4	21.2	15.8	296.6%
Other + funds	10.0	57.4	37.5	27.5	275.2%
Loss on portfolio sale	(0.2)	0.0	(0.0)	0.2	-89.1%
Customer bonuses	(17.7)	(25.8)	26.0	8.3	47.1%
Miscellaneous bankruptcies	(12.8)	(11.0)	(8.0)	4.9	-37.8%
Reserve for other overdue debts	(9.9)	9.5	16.5	6.6	67.0%
Reserve foreclosed assets	(1.8)	1.9	0.3	2.0	114.9%
IPAB Contribution	228.8	85.3	89.9	138.9	60.7%
Others	1.1	(4.2)	(1.6)	2.7	-250.3%
<b>Totals</b>	<b>(188.9)</b>	<b>43.1</b>	<b>20.8</b>	<b>168.1</b>	<b>89.0%</b>

## ADMINISTRATIVE EXPENSES

During the third quarter of 2023, administrative expenses showed a variation of 17.8%, mainly due to the IPAB which was no longer presented within the expense and is now housed in other income and expenses and represents 147.8 million pesos of the variation, depreciations decrease by 79.2 million pesos, that is, 31.7% mainly due to the sale of assets, the item of other operating expenses increases by 74.0 million pesos which represents a 22.2% related to the operation of electronic banking, remunerations and benefits increase by 52.5 million pesos, that is, 11.9% this mainly due to the performance of the financial table, fees decrease by 36.0% mainly due to a lower requirement for specialized services, promotion expenses increase by 26.6 million pesos mainly due to sponsorships and advertising campaigns related to digital products and services.

ADMINISTRATION EXPENSES	III Q 22	II Q 23	III Q 23	Variation	% Var.
Salaries and Claims	443.0	482.3	495.5	52.5	11.9%
Professional Fees	113.7	52.4	72.8	41.0	-36.0%
Leases	11.0	2.0	3.3	7.7	-69.9%
Marketing	32.7	45.6	59.3	26.6	81.3%
Other administrative and operative expenses	333.0	214.8	407.0	74.0	22.2%
Multiple Taxes	63.4	81.4	80.8	17.4	27.4%
Depreciation and Amortization	249.6	171.9	170.4	79.2	-31.7%
Nondeductible concepts for ISR	7.7	5.6	7.4	0.4	-4.6%
IPAB Contribution	(147.8)	0.0	0.0	147.8	-100.0%
Caused PTU	16.9	12.7	23.9	7.0	41.4%
Deferred PTU	14.6	14.1	14.1	0.5	-3.3%
<b>Totals</b>	<b>1,108.8</b>	<b>1,057.4</b>	<b>1,306.3</b>	<b>197.5</b>	<b>17.8%</b>



## INCURRED AND DEFERRED TAXES

Tax on Profit	III Q 22	II Q 23	III Q 23	Variation	% Var.
Caused ISR	0.0	(12.6)	72.2	(72.15)	0.0%
Differed ISR	(12.9)	5.7	41.1	54.01	-419.0%
<b>Totals</b>	<b>(12.9)</b>	<b>6.6</b>	<b>31.0</b>	<b>18.1</b>	<b>140.8%</b>

At the end of the third quarter of 2023, Banca Afirme individually presents its tax returns, and to date has no outstanding tax credits or debts.

## FINANCIAL SITUATION, LIQUIDITY AND CAPITAL RESOURCES

The internal sources of liquidity of Banca Afirme are constituted both by the issuance of its own paper, traditional collection, and external sources coming from credit lines granted by financial institutions and development banking.

*Debt level at the end of the third quarter of 2023*

The total liabilities of Banca Afirme as of September 30, 2022 and 2023, were 105,741.9mdp and 256,621.8mdp respectively, the main component of the liabilities being the operations of the Financial Desk.

Total Liabilities	Sep 22	Jun 23	Sep 23	It will depend on the context, but "Var" could be an abbreviation for "Variable".	%
Traditional Catchment	74,904.4	88,757.9	87,069.7	12,165.3	16.2%
Credit securities issued	531.1	1,493.3	1,494.4	963.3	181.4%
Interbank Loans and Other Organizations	5,854.9	5,351.4	5,861.2	6.3	0.1%
Creditors by Repurchase Agreement	16,491.3	144,615.9	154,287.0	137,795.7	835.6%
Other Accounts Payable	3,272.4	2,416.4	2,552.3	720.1	-22.0%
Deferred Credits	81.8	108.5	78.6	(3.2)	-4.0%
Lease Liability	1,148.9	1,525.5	1,772.2	623.3	54.3%
Other liabilities	3,457.1	3,524.7	3,506.4	49.3	1.4%
<b>Total Liability</b>	<b>105,741.9</b>	<b>247,793.7</b>	<b>256,621.8</b>	<b>150,879.9</b>	<b>142.7%</b>

## EVOLUTION OF THE BALANCE SHEET

The total assets of Banca Afirme show an increase of 133.8% compared to the same period of the previous year, impacted by the increase in financial instruments and repo debtors, this mainly due to the fact that during the previous year a compensation was made between the active and passive operations of these transactions, and from this year on, such compensation was no longer made.

The collection increases its balances mainly the term collection which increases by 18.9%, and the sight collection increases by 13.5%, on the other hand, the balance in issued credit titles increases by 963.3 million pesos showing a balance as of September 30, 2023 of 1,494.4 million pesos.

RELEVANT INDICATORS	IIIQ 22	IVQ 22	IQ 23	IIQ 23	IIIQ 23
	NPL ratio (past due portfolio/total portfolio)	4.29%	5.47%	5.66%	5.87%
Overdue portfolio coverage (preventive estimate/past due portfolio)	1.09	0.85	0.83	0.70	0.67
Operating efficiency (administration and promotion expenses/average total assets)	3.63%	2.73%	2.54%	1.75%	2.01%
ROE (return on equity)	5.71%	8.58%	11.05%	3.76%	5.04%
ROA (return on assets)	0.35%	0.33%	0.39%	0.12%	0.16%
Liquidity Ratio (liquid assets/liquid liabilities)	0.89	0.95	0.97	0.99	0.98
MIN (financial margin adjusted for credit risks/productive assets)	3.42%	2.13%	1.64%	0.92%	1.31%
<b>BANCA AFIRME</b>					
Credit Capitalization Index	20.15%	20.00%	20.79%	21.37%	20.99% (1)
Total Capitalization Ratio	15.92%	15.76%	15.94%	15.38%	15.42% (1)
Basic Capital Index	11.71%	11.57%	11.81%	11.53%	11.65% (1)

(1) Previous data before replicas with Banxico

Note: The details of the assets at risk are included in the financial notes.

## **TREASURY POLICIES**

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

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

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

## **INTERNAL CONTROL**

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

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

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

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

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

### Qualitative Information System Remuneration

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

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

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

The Risk and Compensation Committee is composed of:

<b>President</b>
<b>Independent Director</b>
<b>Adviser</b>
<b>Independent Director</b>
<b>Managing Director</b>
<b>Head of Comprehensive Risk Management</b>
<b>Deputy General Director of Risk and Credit Management</b>
<b>Deputy General Director Corporate Administration</b>
<b>Secretary</b>
<b>Legal and Trustee Director</b>
<b>Independent Expert</b>
<b>Guest with voice, without vote</b>

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

The Remuneration Manual applies to the Management positions of the first two levels of the Staff areas, and to the Management positions of the first three levels of the Deputy General Business Management.

For the 2023 financial year, the list of these positions is:

STAFF	BUSINESS
CONTROLLER GENERAL	DIRECTOR OF ACQUISITION
DEPUTY GENERAL DIRECTOR OF RISK AND CREDIT MANAGEMENT	COMMERCIAL PARTNERSHIP DIRECTOR
DEPUTY GENERAL MANAGER BUSINESS DEVELOPMENT IN BANKING	DIRECTOR SELF-SERVICES
DEPUTY MANAGING DIRECTOR INVESTMENTS	GOVERNMENT BANK DIRECTOR NUEVO LEON
DEPUTY LEGAL DIRECTOR GENERAL AND FID.	DIRECTOR DIGITAL BANKING
GOVERNMENT CREDIT ANALYSIS DIRECTOR	BUSINESS BANKING DIRECTOR
AUDIT DIRECTOR	CAPTAINING DIRECTOR
DIRECTOR GOVERNMENT BANKING	SME CENTERS DIRECTOR
DIRECTOR SPECIALIZED BANKING	COMMERCIAL DIRECTOR FOR THE TERRITORIAL FORCES
CONTROLLER DIRECTOR	MORTGAGE DIRECTOR
MONEY MARKET CONTROLLER DIRECTOR	DIRECTOR OF NEW TECHNOLOGIES
REGULATORY CONTROLLER DIRECTOR	DIVISIONAL DIRECTOR
DIRECTOR OF OPERATIONAL CONTROL	COMMERCIAL AND DIGITAL EXECUTIVE DIRECTOR
DIRECTOR CORP RELATIONS INSTI AND BCA GOB	EXECUTIVE DIRECTOR OF PRODUCTS
IT CORP, OPERATIONS AND PROCESSES DIRECTOR	EXECUTIVE DIRECTOR BUSINESS BUSINESSES
DIRECTOR OF PARAMETRIC CREDITS	DEPUTY MANAGING DIRECTOR OF BUSINESS
DIRECTOR OF DEVELOPMENT CENTRAL SERVICES AND TRADITIONAL CHANNELS	PAYROLL AND PAYROLL CREDIT DIRECTOR
DIRECTOR OF INFRASTRUCTURE AND SERVICES	CAPTAINING SEGMENT DIRECTOR
DIRECTOR OF ADMINISTRATIVE RECOVERY	CONSUMER SEGMENT DIRECTOR
DIRECTOR OF INFORMATION SECURITY	BUSINESS SEGMENT DIRECTOR
DIRECTOR OF SECURITY AND INTELLIGENCE	SME SEGMENT DIRECTOR
CORPORATE SERVICES DEVELOPMENT DIRECTOR	CREDIT AND DEBIT CARD DIRECTOR
EXECUTIVE DIRECTOR. OPERATIONS AND PROCESSES	
EXECUTIVE DIRECTOR ADMIN. OF RISKS	
EXECUTIVE DIRECTOR CREDIT	
LEGAL EXECUTIVE DIRECTOR	
EXECUTIVE DIRECTOR MONEY MARKET	
EXECUTIVE PROJECTS DIRECTOR	
HUMAN RESOURCE EXECUTIVE DIRECTOR	
TREASURY BALANCE SHEET EXECUTIVE DIRECTOR	
FIDUCIARY STRUCTURING DIRECTOR	
DIRECTOR FACTORING	
TRUSTEE DIRECTOR	
FINANCE DIRECTOR	
GOVERNMENT AND INFRASTRUCTURE DIRECTOR	
LEGAL DIRECTOR OF RECOVERY	
MONEY AND EXCHANGE MARKET DIRECTOR	
LEGAL STRUCTURING BUSINESS DIRECTOR	
DIRECTOR PREV. FRAUDS AND CLARIFICATIONS	
IT PROCESS AND ARCHITECTURE DIRECTOR	
DIRECTOR OF PROCESSES AND SEC CREDITS STRUCT.	

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

The Compensation System considers as eligible personnel the Managerial positions of the first two levels of the Staff areas and the Managerial positions of the first three levels of the Deputy General Business Management. The personnel included were chosen based on the fact that the decisions they make in their daily activities may involve a risk for the Institution.

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

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

The last update of the Remuneration System was carried out in July 2021, where a subsection was added in the General Policies section Related to Ordinary Remuneration, in order to align it with the Manual of Diversity, Equity and Inclusion Policies and Guidelines.

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

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

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

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

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

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

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

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

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

### Quantitative Information System Remuneration

- a) Number of meetings of the Risk and Remuneration Committee during the year: 4 on a quarterly basis.
- b) Number of employees: 76
  - 1. Number of covered bonds: 3  
Percentage: 0.13847%
  - 2. Number of bonds awarded: 67  
Percentage: 5.45444%
  - 3. Number of compensation and settlements: 6  
Percentage: 0.23877%
  - 4. Bonds pending to be awarded in cash: 0  
Percentage: 0%
  - 5. Fixed + Variable Compensation of personnel subject to SR  
Total: 15.09065%
- c)
  - 1. Fixed Remuneration: 8.26756%  
Variable Remuneration: 5.59290%
  - 2. Transferred: 0%  
Not Transferred: 5.59290%
  - 3. Monetary: 5.45444%
- d)
  - 1. Percentage exposed to subsequent adjustments: 0%
  - 2. Percentage of reductions made due to adjustments: 0%

Note: The percentage that account 6410 of Banca Afirme represents in relation to account 6400 (Administration and Promotion Expenses) is 35.8103%.

### OTHER RELEVANT EVENTS

At the end of the third quarter of 2023, Banca Afirme has an asset level of 264,763.5 million pesos, showing an increase of 133.8% against the same period of the previous year. This increase is impacted by the increase in repo debtors as a result of a change in accounting standards where repo debtors are presented without offsetting their counterpart, which increases both total Assets and Liabilities.

### ***Dividends to Banking***

On July 19, 2023, Banca Afirme receives dividends from Círculo de Crédito for 6.9mdp.

## ***Capitalization***

The Capitalization Index of Banca Afirme was at 15.42% at the end of the third quarter of 2023 with a basic capital index of 11.65%.

## ***Issuance of Subordinated Bonds***

### **QAFIRME15**

At the Extraordinary General Shareholders' Meeting held on February 4, 2015, the Shareholders agreed to issue non-preferred capital subordinated bonds, perpetual and susceptible to be converted into shares at the Bank's option, obtaining authorization from the Central Bank for their Issuance through official letters OFI/S33-001-12465 and OFI/S33-001-12722 dated January 21, 2015, and February 3, 2015, correspondingly. The issuance of the bonds was carried out through a private offer for up to 11,000,000 subordinated bonds with a face value of \$100 pesos each, which accrue interest at a TIIE + 4.0% rate, this issuance is not guaranteed, the interest payment period is every three months, it has no maturity date. Said issuance was for an amount of \$ 800, the proportion of the authorized amount of subordinated bonds compared to the amount issued was 73%.

### **QBAFIRME18**

At the Extraordinary General Shareholders' Meeting held on October 1, 2018, the Shareholders agreed to carry out an issue of non-preferred subordinated capital bonds not convertible into shares, obtaining authorization from the Central Bank for their issuance through official letter OFI/033-24335. The issuance of the bonds was carried out through a public offering of up to 12,000,000 subordinate bonds with a face value of \$100 pesos each, which earn interest at a TIIE + 2.8% rate, this issuance is not secured, the interest payment period is every 28 days and its maturity will be in September 2028. Said issuance was for an amount of \$ 1,200, the proportion of the authorized amount of the subordinated obligations compared to the amount issued was 100%.

### **QBAFIRME20**

At the Extraordinary General Shareholders' Meeting held on March 17, 2020, the Shareholders agreed to carry out an issue of non-preferred, non-convertible subordinated capital bonds, obtaining authorization from the Central Bank for their issuance through official letter 153/12258/2020. Through an issuance act dated March 24, 2020, it was carried out through a public offer of up to 5,000,000 subordinated obligations with a nominal value of \$100.00 pesos each, which accrue interest at a TIIE + 2.8% rate, this issue is not guaranteed, the interest payment period is every 28 days and its maturity will be in March 2030. Said issuance was for an amount of \$ 500, the proportion of the authorized amount of the subordinated bonds compared to the amount issued was 100%.



## **QBAFIRM20-2**

At the Extraordinary General Shareholders' Meeting held on March 17, 2020, the Shareholders agreed to carry out an issue of non-preferred, non-convertible subordinated capital bonds, obtaining authorization from the Central Bank for their issuance through official letter 153/12258/2020. Through an issuance deed dated October 22, 2020, a public offer was carried out for up to 2,300,000 subordinated bonds with a nominal value of \$100.00 pesos each, which accrue interest at a TIIE + 2.8% rate. This issuance is not guaranteed, the interest payment period is every 28 days and its maturity will be in October 2030. Said issuance was for an amount of \$ 230, the proportion of the authorized amount of subordinated bonds compared to the amount issued was 100%.

## **QBAFIRME-22**

At the Extraordinary General Shareholders' Meeting held on March 17, 2020, the Shareholders agreed to carry out an issuance of non-preferential subordinated capital bonds that cannot be converted into shares, obtaining authorization from the Central Bank for their issuance through document 153/12258/2020. By means of the act of issue dated February 15, 2022, the subordinated obligations were issued through a public offer for up to 2,012,500 subordinated obligations with a nominal value of \$ 100.00 pesos each, which accrue interest at a TIIE rate of 28 days + 2.8%, this issue is not guaranteed, the interest payment period is every 28 days and its maturity will be in February 2032. This issuance was for an amount of \$201, and the ratio of the authorized amount of subordinated debentures to the amount issued was 100%. As of September 30, 2023 and 2022, the subordinated obligations do not have a discount rate nor a premium.

## **QBAFIRME22-2**

At the Extraordinary General Shareholders' Meeting held on March 17, 2020, the Shareholders agreed to carry out an issue of non-preferred, non-convertible subordinated capital obligations of the Bank, obtaining authorization from the Central Bank for their issuance through official letter 153/12258/2020. On September 14, 2022, the subordinated debentures were issued through a public offering of 4,025,000 subordinated debentures, considering that the Issuer exercised its over-allotment right for 525,000 subordinated debentures, with a nominal value of Ps. 100.00 each, bearing interest at a TIIE rate for a term of up to 28 days.00 pesos each, bearing interest at a TIIE rate for a term of up to 28 days, this issue is unsecured, the interest payment period is every 28 days and maturity will be in September 2032. This issuance was for \$403. At September 30, 2022, the amount issued was \$392 and the ratio of the authorized amount of subordinated debentures to the amount issued was 97%.

At the end of the third quarter of 2023, the subordinated obligations program has a balance of 3,364.8 million pesos.

## **CERTIFICATION**

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

Jesus Antonio Ramirez Garza

Chief Executive Officer

Alejandro Garay Espinosa

General Director of Corporate Management

Financial Controller

Luis Arturo Arias Medina

Chief Financial Officer

David Gerardo Martínez Mata

Director of Internal Audit