

**Bank of América México, S. A., Institución de
Banca Múltiple**

Audited Financial Statements
December 31, 2022

Bank of América México, S. A., Institución de Banca Múltiple

24 Pedregal Street, Floor 22, Mexico City, 11040

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Independent Auditor's Report

To the General Meeting of Shareholders of
Bank of América México, S. A.,
Institución de Banca Múltiple

Opinion

We have audited the financial statements of Bank of América México, S. A., Institución de Banca Múltiple (the Institution), which comprise the statement of financial position as at December 31, 2022, and the statements of comprehensive income, of changes in stockholder's equity and of cash flows for the year then ended and notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of Bank of América México, S. A., Institución de Banca Múltiple as at December 31, 2022, and for the year then ended, are prepared, in all material respects, in accordance with accounting standards applicable to financial institutions in México issued by Comisión Nacional Bancaria y de Valores (CNBV).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Institution in accordance with the Professional Code of Ethics of Mexican Institute of Public Accountants together with other requirements applicable to our audit of the financial statements in México. We have fulfilled our other ethical responsibilities in accordance with those requirements and Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters

Allowance for credit losses of loan portfolio

As described in Note 9 on the financial statements, the loan portfolio originates from the financing granted by the Institution to its borrowers, the balance of the loan portfolio and the allowance for credit losses amounts to \$27,454 million pesos and \$202 million pesos, as of December 31, 2022, respectively. The recoverability of the loan portfolio is determined based on the expected credit losses model, according to the methodology established by the CNBV, effective as of January 1, 2022. The methodology implies identifying, for the loan portfolio, the probability of default, loss given default, and exposure at default.

During our audit, we focused on this item mainly due to the importance of the value of the loan portfolio and the allowance for credit losses, since its determination requires considering various input data, and because since January 1, 2022, the applicable methodology was modified.

In particular, we focused our audit efforts on: i) the applicable methodology, ii) the classification of the portfolio into credit risk stages and iii) the completeness and accuracy of the key data used in the methodology applicable to each type of credit, such as: outstanding balance of the credit, balance due, total balance of the credits that the borrower owes to the Institution, days in arrears, credit terms, amount reported by credit reporting agency on the contractual obligations of the borrowers and financial information of the borrower.

How our audit addressed the matter

As part of our audit we performed the following procedures:

- With assistance of our IT specialists, we understood and evaluated the design and operational effectiveness of loan portfolio cycle controls; mainly those related to the accuracy and completeness of the data used to calculate this allowance.
- With the assistance of our specialists in regulatory matters, we independently re-processed the calculation of the allowance and evaluated that the methodology used by Management to calculate the allowance of expected credit losses complies with the guidelines established by the CNBV.
- Through selective testing, we evaluate key input data, as follows:
 - We compared the classification of the loan portfolio by credit risk stages and type of credit with the number of days past due.
 - Outstanding balance and total balance of the credits that the borrower owes to the Institution were verified against the loan portfolio system which determined the automatically the information of the credit and also against the loan statements of the borrower.
 - For the balance due, we compared it with the contractual clauses of the agreements with the clients or with extensions to the authorized credit lines, as appropriate to the type of credit.
 - Days in arrears recalculating the days passed since the last due amortization date established in the contract until the closing date of the contract.



Key Audit Matters

Valuation of derivative financial instruments (DFI)

As mentioned in Notes 3g and 8, the Institution enters into FDI operations for trading purposes and holds approximately 99% of its positions in interest rate swaps, cross currency swaps, forward contracts, interest rate futures and derivative packages. The DFIs assets amount to \$4,129 million pesos and represent 4% of total assets as of December 31, 2022. The DFIs liabilities amount to \$6,231 million pesos and represent 7% of total liabilities as of December 31, 2022. Most of these operations are *plain vanilla* as they are basic or standard type, that is, they lack complex characteristics. Its counterparties are mainly national banking institutions with financial guarantee contracts exercisable in cash and determined on a daily basis. Likewise, as mentioned in Note 2, the CNBV issued modifications to the accounting criteria applicable since January 1, 2022, among the main changes for DFIs, was to incorporate the effect of credit risk in its valuation model. FDI operations carried out by multiple banking institutions are subject to certain rules issued by Banco de México (Banxico). These require formal authorization from Banxico to enter into operations with these instruments with respect to each class or type of derivative.

In our audit, we have focused primarily on this item because of the significance of its book value and because the process to determine its fair value is complex and due to the change mentioned in the first paragraph.

In particular, we focused our audit efforts on the model and the following key assumptions

How our audit addressed the matter

- We checked the credit history against the report of the credit reporting agency.
- The borrower's financial information was checked against financial statements.

As part of our audit we performed the following procedures:

Through selective testing:

- We verified the key assumptions used, mainly interest rate and exchange rate curves, volatilities and credit default probabilities (Credit Default Swaps curves) with data obtained from independent sources available in the market.
- We compared the economic data of the DFIs used in the valuation model with the confirmations of the counterparties and the account statements issued by the clearing partners, which act as clearing and settlement agencies.
- With the assistance of our valuation experts:
 - We confirmed that the valuation model used by the Institution is commonly accepted for this type of instrument and
 - We recalculated the fair value of the DFIs, and compare it with the recorded values.



Key Audit Matters

used for the valuation of DFIs: interest rate and exchange rate curves, volatilities, and counterparty and own credit default probability.

How our audit addressed the matter

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with accounting standards applicable to financial institutions in México issued by CNBV and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Institution's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institution or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institution's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the [consolidated] financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the [consolidated] financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

This version of our report is a translation from the original report, which was prepared in Spanish. In all matters of interpretation of information, views or opinions, the original Spanish language version of our report takes precedence over this translation.

PricewaterhouseCoopers, S. C.

Nicolás Germán Ramírez
Audit Partner

Mexico City, March 29, 2023

Bank of America México, S. A., Institución de Banca Múltiple

24 Pedregal Street, Floor 22, Mexico City, 11040

Statement of the Financial Position

December 31, 2022

Millions of Mexican pesos (Notes 2 and 3)			
	2022		2022
Assets		Liabilities and Equity	
CASH AND CASH EQUIVALENTS (Notes 5 and 18)	\$ 10,538	LIABILITIES:	
MARGIN ACCOUNTS (DERIVATIVE FINANCIAL INSTRUMENTS) (Note 3b.)	1,464	DEPOSITS (Note 13):	
INVESTMENT IN FINANCIAL INSTRUMENTS:		Demand deposits	\$ 34,389
Trading financial instruments (Note 6)	17,016	Time deposits:	
REVERSE REPURCHASE AGREEMENT DEBTORS (Note 7)	25,000	From the general public	626
SECURITY LOAN	-	Money market	8,829
DERIVATIVE FINANCIAL INSTRUMENTS		Total Deposits	43,844
Held for trading (Note 8)	4,129		
VALUATION ADJUSTMENTS FOR HEDGING FINANCIAL ASSETS	-	INTERBANK LOANS AND LOANS FROM OTHER BORROWING ENTITIES (Note 15):	
LOAN PORTFOLIO WITH CREDIT RISK STAGE 1 (Note 9):		Short term	-
Commercial loans		Long term	-
Business or commercial activity	25,450	Total interbank loans	-
Financial entities	2,005	REVERSE REPURCHASE AGREEMENT CREDITOR (Note 7)	4,527
TOTAL LOAN PORTFOLIO WITH CREDIT RISK STAGE 1	27,454	SECURITY LOAN	-
LOAN PORTFOLIO	27,454	COLLATERAL SOLD OR PLEDGED AS GUARANTEE:	-
LESS:		Repurchase (Note 14)	-
ALLOWANCE FOR CREDIT LOSSES OF		Security loan (Note 14)	10,499
LOAN PORTFOLIO (Note 9)	(202)		10,499
TOTAL LOAN PORTFOLIO - Net	27,252	DERIVATIVE FINANCIAL INSTRUMENTS:	
VIRTUAL ASSETS		Held for trading (Note 8)	6,231
BENEFITS RECEIVABLE IN SECURITIZATION TRANSACTIONS	-	VALUATION ADJUSTMENTS FOR HEDGING FINANCIAL LIABILITIES	-
OTHER RECEIVABLES - Net (Note 10)	15,511	OBLIGATIONS IN SECURITIZATION TRANSACTIONS	-
FORECLOSED ASSETS (NET)	-	LEASE LIABILITY (Note 11)	91
LONG-LIVED ASSETS HELD FOR SALE OR TO DISTRIBUTE TO OWNERS	-	RESOURCES OF RESTRICTED APPLICATION RECEIVED FROM THE FEDERAL GOVERNMENT	-
ADVANCED PAYMENTS AND OTHER ASSETS - Net	113	OTHER ACCOUNTS PAYABLE (Note 16)	13,229
RIGHT-OF-USE ASSETS FROM PROPERTY, FURNITURE		Creditors for settlement of transactions	1,185
AND EQUIPMENT - Net (Note 11)	95	Creditors for margin accounts	1,054
PROPERTY, FURNITURE AND EQUIPMENT - Net (Note 12)	70	Creditors for collaterals received in cash	33
LONG-TERM INVESTMENTS IN EQUITY SECURITIES	-	Contributions payable	6,202
DEFERRED TAX ASSET - Net (Note 20)	627	Sundry creditors and other accounts payable	21,704
INTANGIBLE ASSETS (NET)	-	LIABILITIES RELATED TO DISPOSAL GROUPS HELD FOR SALE	-
RIGHT-OF-USE OF INTANGIBLE ASSETS (NET)	-	FINANCIAL INSTRUMENTS QUALIFYING AS LIABILITIES	-
GOODWILL	-	LIABILITIES ASSOCIATED WITH THE WITHDRAWAL OF PROPERTY, FURNITURE AND EQUIPMENT COMPONENTS	-
		INCOME TAX LIABILITY	278
		EMPLOYEE BENEFITS LIABILITY (Note 17)	450
		DEFERRED CREDITS AND ADVANCED CHARGES	15
		Total liabilities	87,639
		STOCKHOLDERS' EQUITY (Note 19)	
		PAID-IN CAPITAL	
		Share Capital	5,270
			5,270
		EARNED CAPITAL:	
		Capital reserves	798
		Retained earnings	8,080
		Remeasurement of employee defined benefits	29
			8,906
		Total stockholders' equity	14,176
Total assets	\$ 101,815	Total liabilities and stockholders' equity	\$ 101,815

Memorandum accounts: (Note 21)	
Guarantees	-
Contingent assets and liabilities	-
Credit commitments (Note 9)	\$ 40,318
Financial Agent of the Federal Government	-
Assets in custody (trustee) or under management	1
Assets in custody or under management	-
Collaterals received by the entity	36,289
Collaterals received and sold or pledged as security by the entity	15,351
Uncollected accrued interests derived from loan portfolio with credit risk stage 3	-
Other memorandum accounts	-

The attached explanatory notes form an integral part of this financial statement.

This statement of the financial position was formulated in accordance with the Accounting Criteria for Credit Institutions, issued by the National Banking and Securities Commission, based on the provisions of Articles 99, 101 and 102 of the Law of Credit Institutions, of general and obligatory observance, applied in a consistent manner, reflecting the transactions carried out by the institution up to the aforementioned date, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions. This statement of the financial position was approved by the board of directors under the responsibility of the undersigning executives.

As of December 31, 2022, the capitalization ratio on assets at credit risk is 39.56% and on total assets subject to risk it is 21.15%.
As of December 31, 2022, the historical amount of capital stock amounts to \$4,453 million pesos.

Emilio Romano Mussali
Chief Executive Officer

Ernesto Ramos de la Fuente
Chief Financial Officer

Juan Ignacio Reynoso Echegollén
Controller

Felipe Tejeda Velasco
Director of Internal Audit

Information available as follows:
www.bankofamerica.com.mx/AcercaBA/005_InfoFin.htm
www.cnbv.gob.mx/SECTORES-SUPERVISADOS/BANCA-MULTIPLE/Paginas/Información-Estadística.aspx

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Statement of Comprehensive Income

From January 1 to December 31, 2022

Millions of Mexican pesos (Notes 2 and 3)

	2022
Interest income	\$ 9,670
Interest expense	<u>(6,961)</u>
FINANCIAL MARGIN	2,709
Allowance for credit losses of loan portfolio (Note 9)	<u>227</u>
FINANCIAL MARGIN ADJUSTED FOR CREDIT RISKS	<u>2,936</u>
Commissions and fees income	156
Commissions and fees expense	(60)
Trading income (loss)	1,294
Other operating income (expense)	(91)
Administrative and promotion expenses	<u>(1,283)</u>
OPERATING INCOME	<u>2,952</u>
Share in the net income of other entities	<u>-</u>
PROFIT BEFORE INCOME TAX	<u>2,952</u>
Income tax (Note 20)	<u>(608)</u>
PROFIT FROM CONTINUING OPERATIONS	<u>2,344</u>
Discontinued operations	<u>-</u>
NET INCOME	<u>2,344</u>
Other Comprehensive Income	
Remeasurement of defined employee benefits	<u>(7)</u>
COMPREHENSIVE INCOME	<u>\$ 2,351</u>
Basic earnings per common share (Mexican pesos)	<u>\$ 0.52</u>

The attached explanatory notes form an integral part of this financial statement.

This statement of comprehensive income was formulated in accordance with the Accounting Criteria for Credit Institutions, issued by the National Banking and Securities Commission, based on the provisions of Articles 99, 101 and 102 of the Law of Credit Institutions, of general and obligatory observance, applied in a consistent manner, reflecting the transactions carried out by the institution up to the aforementioned date, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

This statement of comprehensive income was approved by the board of directors under the responsibility of the undersigning executives.

Emilio Romano Mussali
Chief Executive Officer

Ernesto Ramos de la Fuente
Chief Financial Officer

Juan Ignacio Reynoso Echegollén
Controller

Felipe Tejeda Velasco
Director of Internal Audit

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Statement of Changes Stockholder's Equity

From January 1 to December 31, 2022

Millions of Mexican Pesos (Notes 2 and 3)

	<u>Paid-In</u>	<u>Earned</u>			
	<u>Share capital</u>	<u>Capital Reserves</u>	<u>Retained earnings</u>	<u>Remeasurement of employee defined benefits</u>	<u>Total equity</u>
Balance as of January 1, 2022	\$ 5,270	\$ 725	\$ 5,808	\$ 22	\$ 11,825
Retrospective adjustments for accounting changes and misstatement correction	-	-	-	-	-
Balances as of January 1, 2022 adjusted	5,270	725	5,808	22	11,825
OWNER MOVEMENT					
Capital contributions	-	-	-	-	-
Equity repayments	-	-	-	-	-
Dividends declared	-	-	-	-	-
Capitalization of other stockholders' equity concepts	-	-	-	-	-
Changes in the controlling interest not involving loss of control	-	-	-	-	-
Total	-	-	-	-	-
RESERVE MOVEMENT					
Reserves constitution	-	73	(73)	-	-
Total	-	73	(73)	-	-
COMPREHENSIVE INCOME:					
Net income	-	-	2,344	-	2,344
Remeasurement of defined employee benefits	-	-	-	7	7
Total	-	-	2,344	7	2,351
Balance as of December 31, 2022	<u>\$ 5,270</u>	<u>\$ 798</u>	<u>\$ 8,080</u>	<u>\$ 29</u>	<u>\$ 14,176</u>

The attached explanatory notes form an integral part of this financial statement.

This statement of changes in stockholders' equity was formulated in accordance with the Accounting Criteria for Credit Institutions, issued by the National Banking and Securities Commission, based on the provisions of Articles 99, 101 and 102 of the Law of Credit Institutions, of general and obligatory observance, applied consistently, reflecting all the movements in the stockholders' equity accounts derived from the transactions carried out by the institution during the aforementioned period, which were carried out and valued in accordance with sound banking practices and applicable legal and administrative provisions.

This statement of comprehensive income was approved by the board of directors under the responsibility of the undersigning executives.

Emilio Romano Mussali
Chief Executive Officer

Ernesto Ramos de la Fuente
Chief Financial Officer

Juan Ignacio Reynoso Echegollén
Controller

Felipe Tejeda Velasco
Director of Internal Audit

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Statement of Cash Flows

From January 1 to December 31, 2022

Millions of Mexican Pesos (Notes 2 and 3)

	2022
Operating activities	
Profit before income tax	\$ 2,952
Adjustments for items associated with investing activities:	
Depreciation and amortization	76
Provisions	-
Other items applied to income that did not require the use of resources	-
	<u>3,028</u>
Changes in operating items	
Increase or decrease in items related to operations:	
Changes in margin accounts (derivative financial instruments)	168
Changes in investments in financial instruments (securities) (net)	(8,452)
Changes in reverse repurchase agreement debtors (net)	(1,000)
Changes in derivative financial instruments (asset)	(1,983)
Changes in loan portfolio (net)	(6,160)
Changes in other receivables (net)	(7,946)
Changes in other operating assets	(654)
Changes in deposits	4,138
Changes in creditors from repurchase agreements	1,341
Changes in collaterals sold or pledged as guarantee	5,880
Changes in derivative financial instruments (liability)	1,030
Changes in assets/liabilities for employee benefits	457
Changes in other accounts payable	9,111
Changes in other provisions	(4)
Income tax payments	-
Net cash flows from operating activities	<u>(1,048)</u>
Investing activities	
Payments of the acquisition of property, plant and equipment	<u>(23)</u>
Net cash flows from investing activities	<u>(23)</u>
Financing activities	
Lease liability payments	<u>(31)</u>
Net cash flows from financing activities	<u>(31)</u>
Net decrease in cash and cash equivalents	(1,102)
Effects of changes in cash and cash equivalents value	663
Cash and cash equivalents at the beginning of the year	<u>10,977</u>
Cash and cash equivalents at the end of the year (Nota 5)	<u>\$ 10,538</u>

The attached explanatory notes form an integral part of this financial statement.

This statement of cash flows was formulated in accordance with the Accounting Criteria for Credit Institutions, issued by the National Banking and Securities Commission, based on the provisions of Articles 99, 101 and 102 of the Law of Credit Institutions, of general and obligatory observance, applied in a consistent manner, reflecting the transactions carried out by the institution up to the aforementioned date, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

This statement of comprehensive income was approved by the board of directors under the responsibility of the undersigning executives.

Emilio Romano Mussali
Chief Executive Officer

Ernesto Ramos de la Fuente
Chief Financial Officer

Juan Ignacio Reynoso Echegollén
Controller

Felipe Tejeda Velasco
Director of Internal Audit

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Notes to the Financial Statements

December 31, 2022

Figures stated in millions of Mexican Pesos, except those related to Exchange rates, nominal value and number of shares and figures in foreign currency, see Note 2

Note 1 - Nature and activity of the Institution:

Bank of América México, S. A., Institución de Banca Múltiple (Institution or bank), has authorization from the Federal Government, granted by the Ministry of Finance and Public Credit (SHCP by its initials in Spanish) through Official Letter number 102-E-367-DGBM-IV-520 dated March 31, 1995 to operate as a multiple banking institution in Mexico regulated by the Credit Institutions Law (Law), as well as by the Bank of Mexico (Banxico), and by the provisions issued by the National Banking and Securities Commission (CNBV by its initials in Spanish or The Commission) as the inspection and surveillance body of these institutions. The Institution was authorized to start operations through Official Letter number 101.-017 of January 30, 1995. The main activities carried out by the Institution consist of receiving deposits, accepting and granting loans and credits, attracting resources from the public, making investments in securities, enter into repurchase agreements, carry out operations with derivative financial instruments (futures, options, swaps and forward contracts), purchase and sale of foreign currency and other multiple banking operations, in accordance with the Law.

Note 2 - Bases of preparation of the financial information:

Preparation of the financial statements

The accompanying financial statements as of December 31, 2022, have been prepared in accordance with the Accounting Criteria established by the Commission and contained in the General Provisions applicable to credit institutions ("Provisions"), the accounting guidelines of the Mexican Financial Reporting Standards (MFRS), except when, in the opinion of the Commission, it is necessary to apply a regulation or a specific accounting criterion. For these purposes, the Institution has prepared its financial statements in accordance with the presentation required by the Commission.

In accordance with the Accounting Criteria, in the absence of specific accounting criteria from the Commission, the supplementary bases must be applied, in accordance with the provisions of MFRS A-8 "Supplementary", in the following order: i) MFRS, ii) International Financial Reporting Standards, iii) generally accepted accounting principles applicable in the United States of America, both official and unofficial sources in accordance with the provisions of Topic 105 of the Codification of the Financial Accounting Standards Board (FASB), issued by the FASB or, if applicable, and iv) any accounting standard that is part of a formal and recognized set of standards. conformidad.

In order to apply the supplementation bases described above, the requirements regarding a supplementary standard, the supplementary rules and disclosure standards contained in Accounting Standard A-4 "Supplementary Application of Accounting Criteria" issued by the CNBV.

The CNBV clarifies that it is not appropriate to apply accounting criteria, nor the concept of supplementation, in the case of operations which are not permitted or prohibited by express legislation, or which are not expressly authorized. Additionally, the CNBV may require the consolidated financial statements of the Institution to be issued with the pertinent amendments, in the terms established for such purposes.

In addition, in accordance with the provisions of the Law, the Commission may order that the financial statements of the institutions be disseminated with the pertinent modifications, in the event that there are

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Notes to the Financial Statements

December 31, 2022

facts that are considered relevant in accordance with the Accounting Criteria and in accordance with the terms established for that purpose.

Changes in the Accounting Criteria issued by the CNBV

On March 13, 2020, the Commission issued by publication in the Official Gazette of the Federation (DOF by its Spanish acronym) the modifications to the Provisions, with which the Accounting Criteria were updated, which would become effective on January 1, 2021, date that was modified by publication in the DOF on December 4, 2020, to establish the entry into force of said changes as of January 1, 2022.

As part of the Provisions, the Commission established as a practical expedient to apply the modifications of the Accounting Criteria, to recognize on the date of initial application (January 1, 2022) the cumulative effect of the accounting changes mentioned in paragraph above, with the exception of what is noted in the Seventh Transitory article.

On December 30, 2021 the Commission issued a Resolution that modifies Accounting Criteria A-2 Application of particular standards, A-3 Application of general standards, B-1 Cash and cash equivalents, B-6 Loan Portfolio, B-7 Foreclosed Assets and Series D "Criteria related to basic financial statements", with the aim of making some precisions in certain Accounting Criteria so that credit institutions have clarity, security and consistency in the application of these criteria.

Derived from the changes to the aforementioned provisions, as of January 1, 2022, the Institution prospectively adopted the following changes in the Accounting Criteria issued by the Commission that became effective as of the aforementioned date.

Criterion D-1 - The name is changed to statement of the financial position (previously "Balance Sheet") and the structure of this financial statement is modified.

Criterion D-2 - The name is changed to Statement of Comprehensive Income (formerly "Statement of Income") and the structure of this financial statement is modified.

Criterion D-3 - The name is changed to Statement of changes in stockholders' equity (formerly "Statement of changes in stockholders' equity") and the structure of this financial statement is modified.

Criterion B-1 - Cash and cash equivalents – The name of the accounting criterion from "Available funds" is modified to "Cash and cash equivalents"; it includes the definitions of Cash, Cash Equivalents and Highly liquid Financial Instruments, and specifies that Cash must be recognized and valued at its face value, cash equivalents at its fair value and highly liquid financial instruments according to the business model that corresponds to each instrument.

Criterion B-3 Reverse repurchase agreements – The concepts of "cash and cash equivalents", "financial asset", "amortized cost", "effective interest method" and fair value are updated, and the definition of net equity instruments is eliminated by that of equity financial instruments.

It is specified that MFRS B-12 "Compensation of financial assets and financial liabilities" must be followed for the compensation of financial assets and liabilities, the entity acting as borrower.

The Commission makes clarifications regarding what is referred to in paragraph 44.7 of MFRS C-14 indicating that the recipient must recognize the collateral received in memorandum accounts and if the

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Notes to the Financial Statements

December 31, 2022

recipient has the right to sell or give the collateral as a guarantee, the transferor must reclassify the asset in the statement of the financial position as a "restricted asset."

Requires additional disclosures in relevant transactions.

Criterion B-4 security loans – The concepts of "cash and cash equivalents", "financial asset", "amortized cost", "effective interest method" and fair value are updated, and the definition of net equity instruments is eliminated by that of equity financial instruments.

Criterion B-6 Loan portfolio – Accounting definitions are included such as: portfolio with stage 1, 2 and 3 credit risk, transaction costs, collection rights, effective interest rate, effective interest method and guaranteed residual value, véase Nota 9.

The concepts of amortized cost, write-off, sustained payment, credit, commercial loans, mortgage loans, consumer loans, credit facilities, unpaid balance, restructuring and renewal were updated.

The concepts of troubled portfolio, current and overdue portfolio, commission for the granting of loans are eliminated.

Business Model - The business model used by the institution to administer and manage the loan portfolio and generate cash flows and whether the cash flows will come from obtaining contractual cash flows, of the sale of the loan portfolio, or both. The business model is a matter of facts and not of an intention or statement, see Note 1.

The loan portfolio must be recognized under the scope of criterion B-6 if the objective of the business model is to keep it to collect the contractual cash flows and the terms of the contract provide for cash flows on pre-established dates, which correspond only to principal and interest payments on the principal amount outstanding. If the above is not met, it must be treated, in accordance with the provisions of MFRS C-2, "Investment in financial instruments".

Incorporates criteria to determine whether the realization of the contractual cash flows of the loan portfolio is through collection or through sale. Isolated sales do not determine the business model and it clarifies that a historical analysis of past sales and expectations of future sales must be carried out. The business model may be to keep the loan portfolio to collect its cash flows, even if the entity sells it when there is an increase in its credit risk and indicates that there is no inconsistency when high-risk portfolio sales are made.

It requires the documentation of the testing used to determine the business model and those used to periodically evaluate the business model based on the policies established by the Institution. It also establishes that in the event that the contractual conditions of previously evaluated loans are modified and in the case of new products, they must be subject to business model testing, must be authorized by the Credit Committee and communicate in writing to the Commission within 10 calendar days prior to their application.

The Institution must periodically evaluate, in accordance with its established and documented policies for such purposes, the characteristics of its business model to classify the loan portfolio based on its objective.

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Finally, it establishes that the Commission may at any time order that financial instruments that have been valued at fair value be valued at their amortized cost if, in its opinion, there are elements to conclude that its business model is to preserve to collect the contractual cash flows.

Initial recognition standard: The price of the transaction must be quantified, which corresponds to the net amount financed, which results from adding or subtracting to the original amount of the loan the insurance that may have been financed, transaction costs, commissions, interest and other items collected in advance that will be the basis for applying the effective interest method with the effective interest rate, i.e., it is the basis for calculating the amortized cost of the loan portfolio for its subsequent recognition, véase Nota 9.

Commissions collected and transaction costs related to the granting of credit cards must be recognized directly through profit or loss at the time of granting the loan, instead of being amortized through profit or loss over a period of 12 months.

Commissions collected and transaction costs originating a credit facility will be recognized as a loan or a deferred charge, as appropriate, which will be amortized against the period income corresponding to the term granted in the credit facility.

Loan portfolio acquisitions must be recognized at their fair value (transaction price) plus transaction costs on the date of agreement.

In financial lease transactions, when the Institution acts as lessor, it will recognize at the beginning of the contract in the loan portfolio line item, the contractual value of the leasing transaction plus the unguaranteed residual value that accumulates for the benefit of the lessor, against the cash outflow, and the financial income to be accrued will be recognized based on the unpaid balance of the loan against the period income, under the "Interest income" line item, in accordance with MFRS D-5 "Leasing".

In financial factoring, discount and assignment of credit rights transactions, the financial income to be accrued will be recognized in the statement of comprehensive income according to the effective interest rate.

Subsequent recognition - The loan portfolio must be valued at its amortized cost, which must include increases due to effective interest accrued, decreases due to amortization of transaction costs and items collected in advance, as well as the decreases for principal and interest collections and for the preventive allowance for credit risks.

The increase due to the adjustment in the revaluation of the unpaid balance of the loans denominated in Minimum Wage Times (VSM by its Spanish acronym) or in the Measurement and Update Unit (UMA by its Spanish acronym) is recognized as part of the amortized cost as interest income against income.

Specifies the suspension of the accumulation of interest accrued at the time the loan is considered in stage 3 and that the balance pending amortization of the transaction costs of these loans, as well as the items collected in advance and if any, the effect of the profit or loss in renegotiation pending amortization, are recognized against the period income.

Additionally, the classification of the loan portfolio by portfolio in stages 1, 2 or 3 is required, including its transfer between these different stages.

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Renegotiation of loan portfolio

- a. If the Institution restructures a loan with stage 1 and 2 credit risk or partially liquidates it through renewal, it must determine the profit/loss in the renegotiation (restructuring/renewal) through the difference between the carrying amount without consider the preventive allowance of credit risks and the new cash flows on the restructured amount discounted at the original effective rate. The mined difference will be recorded as a deferred charge or credit against the profit or loss from loan portfolio renegotiation in the statement of comprehensive income and will be amortized over the term of the new loan. The determination of profit/loss in the renegotiation is not applicable to credit cards, credit facilities, or loans with stage 3 credit risk.
- b. Those loans with stage 2 or stage 3 credit risk that are restructured or renewed may not be classified in a stage with lower credit risk due to said restructuring or renewal, as long as there is no evidence of sustained payment; unless the requirements of Bulletin B-6 are met to remain in the same risk stage and also with elements that justify the debtor's ability to pay.
- c. After a second restructuring or renovation, it must be classified in stage 3; unless it meets the requirements that must be met at the time of carrying out restructuring or renewal transactions to remain in the same risk stage and also with elements that justify the debtor's ability to pay. Indicates that the loans that, due to a restructuring or renewal, are transferred to a category with greater credit risk, must remain in said stage for a minimum of three months in order to prove sustained payment and consequently be transferred to the immediately following stage with less credit risk.
- d. If the Institution renews a loan, it will be considered that there is a new loan, so the previous loan must be canceled in the case of a total renewal.

Write-offs – It must be periodically evaluated whether a loan with stage 3 credit risk should remain in the statement of the financial position or be written off. In any case, there must be evidence of the formal collection procedures that have been carried out, as well as the elements that prove the practical impossibility of recovering the loan in accordance with the internal policies of the entity established in its credit manual.

NIF C-14 Portfolio sales - Loan portfolio sales will comply with the provisions of MFRS C-14.

Changes in the general methodology and definition of internal methodology based on MFRS C-16

Criterion B-7 Foreclosed Assets - Modifies the definition of Foreclosed Assets and adds the definitions of Disposal Cost and Net Realization Value.

Criterion B-8 Guarantees - The definition of guarantee, commitment and onerous contract is added and clarifies that the income from commissions from the granting of guarantees will be recognized in the period income in accordance with the provisions of MFRS D-1.

Criterion B-9 Custody and management of assets - The definition of acquisition cost and fair value is modified.

It is noted that the income from custody or management services will be recognized in the period income in accordance with the provisions of MFRS D-1.

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Personal and real estate assets in custody other than financial instruments or virtual assets must be valued at their fair value, in accordance with the provisions of MFRS B-17 "Determination of fair value".

Investment transactions in financial instruments carried out by the Institution on behalf of third parties, the securities received will be recognized and valued at their fair value in accordance with the provisions of MFRS C-2, and transactions with derivative financial instruments carried out by the Institution for account of third parties must be recognized and valued at their fair value in accordance with the provisions of MFRS C-10 "Derivative financial instruments and hedging relationships", véase Nota 6.

Criterion B-10 Trusts – Establishes that income from trust management will be recognized based on the provisions of MFRS D-1.

Criterion C-2 Securitization transactions - The definitions of financial asset, assignor, assignee, financial liability and fair value were modified, and the definition of continuous involvement was incorporated.

The definition of equity instruments was eliminated, incorporating the definition of equity financial instruments.

It is noted that MFRS C-14 should be considered for the derecognition and transfer of financial instruments.

Accounting Criteria B-2 Investments in securities, B-5 Derivatives and hedging transactions, B11 Collection rights, C-1 Recognition and derecognition of financial assets, C-3 Related parties and C-4 Segment information were repealed.

Criterion A-3 Application of General Standards

Restricted assets: In the case of margin accounts that are granted to the clearing house for transactions with derivative financial instruments carried out in recognized markets or stock exchanges, they must adhere to the provisions of MFRS C-10 "Derivative financial instruments and hedging relationships".

Settlement accounts: It is specified that for transactions in which immediate settlement or same-day value date is not agreed, the allowance for expected credit losses corresponding to the amounts receivable must be determined in accordance with the provisions of MFRS C-16.

Compensation rules: The specifications on compensation of financial assets and liabilities were eliminated

Fair value disclosures: Additional fair value disclosures are required. (See Note 6)

UMA valuation: It notes that the value to be used will be that of the corresponding measurement and update unit approved by the National Institute of Statistics and Geography and disclosed in the DOF, applicable on the date of the valuation.

IMFRS applicable as of January 1, 2022

As part of the modifications to the Provisions as of January 1, 2022, the Institution prospectively adopted the following MFRS with certain clarifications that are mentioned below and that adapt the recognition, valuation, presentation or disclosure standards incorporated in criterion A-2 "Application of particular rules" taking into consideration that the institutions carry out specialized transactions:

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- MFRS B-5 Segment reporting – Minimum disclosure requirements are established for the segments of credit transactions, treasury transactions and investment banking and transactions on behalf of third parties.
- MFRS B-11 Disposal of long-lived assets and discontinued operations - The breakdown of the net amount generated by discontinued operations must be disclosed, as well as the amount of income from continuing operations and from discontinued operations.
- MFRS B-17 Determination of fair value - In the determination of fair value, the following aspects are established regarding the valuation and disclosure standards in the determination of fair value.
 - I. Entities, when determining fair value, will consider the following:
 - a. In the case of the financial instruments referred to in sections I to III of article 175 Bis 2 of the Provisions, the provisions of this MFRS shall not apply, and must adhere at all times to the provisions of Sections A and B of the Second Section of the Chapter I of the Third Title of the Provisions.
 - b. In the case of financial instruments other than those noted in the previous paragraph, as well as virtual assets, in addition to the provisions of Section C of the Second Section of Chapter I of the Third Title of the Provisions, they must consider the provisions of MFRS B-17.
 - II. Entities may not classify as Level 1 the updated prices for valuation that they determine through the use of internal valuation models.
 - III. In the case of assets or liabilities other than those noted in the previous numerals, MFRS B-17 must be applied when another particular MFRS requires or allows valuations at fair value and/or disclosures about it.
 - IV. Requires additional disclosures: i) type of virtual asset/financial asset to which an internal valuation model is applied and ii) explain price adjustments for valuation when the volume or level of activity has decreased significantly.

MFRS C-2 Investments in financial instruments – With the adoption of this MFRS, the name of the previous classification of investments is modified to "Instruments for trading", "Financial instruments to buy or sell" in "Financial instruments to collect principal and interest"

The exception of paragraph 32.6 of MFRS C-2 to irrevocably designate in its initial recognition a financial instrument to collect or sell, to be subsequently valued at its fair value with effects on net income, will not be applicable to entities.

In the event of reclassifications, the Commission must be informed, detailing the change in the business model that justifies it.

MFRS C-10 Derivative financial instruments and hedging relationships – The definitions of credit derivative financial instruments and their classification as Credit Default Derivative Financial Instruments and Total Return Derivative Financial Instruments were included, as well as the definition of Structured Operations and Derivative Financial Instruments Packages previously included in Accounting Criterion B-5 "Derivatives and Hedging Transactions".

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The recognition and valuation criteria are included, as well as the presentation criteria previously included in Accounting Criterion B-5 "Derivatives and Hedging Transactions".

MFRS C-13 Related parties – Specifies that, in addition to what is observed in MFRS C-13, the following should be considered as related parties: a) Members of the board of directors or board of directors of the holding company or of the financial entities and member companies of the financial group. b) Individuals other than key management personnel or relevant executives or employees whose signature may generate obligations for the entity. c) Legal entities in which the entity's key management or relevant executive personnel are directors or administrators or occupy any of the first three hierarchical levels. d) Legal entities that have power of command, understanding this as the de facto capacity to decisively influence the agreements adopted at shareholders' meetings or sessions of the board of directors or in management.

Additional disclosures are required with related parties that represent more than 1% of the Net Equity of the month prior to the date of preparation of the financial information

MFRS C-14 Transfer and derecognition of financial assets – Clarifies that the collateral received referred to in paragraph 44.7 of MFRS C-14, the recipient must recognize the collateral received in memorandum accounts and in cases in which the recipient is entitled to sell or pledge the collateral, the transferor must reclassify the asset in its statement of the financial position, presenting it as restricted.

When the transfer results in a derecognition of the financial asset by the transferor, the receiving entity must recognize a financial asset (or portion thereof) or a group of financial assets (or portion of said group) in its statement of the financial position, if and only if it acquires the contractual rights and obligations related to said financial asset (or portion thereof) and incorporates the recording criteria for that purpose.

MFRS C-16 Impairment of receivable financial instruments – Clarifies that this MFRS is not applicable to the assets derived from the transactions referred to in Accounting Criterion B-6 Loan portfolio.

Specifications are made for overdrafts in checking accounts and transactions with uncollected immediate collection documents referred to in criterion B-1 "Cash and cash equivalents"

It is noted that when the entity uses the practical expedients referred to in paragraph 42.6 of MFRS C-16, the constitution of allowances must be for the total amount of the debt and must not exceed 60 calendar days for unidentified debtors and 90 days for identified debtors, as well as allowance for credit losses will not be established for balances in favor of taxes and creditable value tax.

It clarifies that expected credit losses due to the impairment of investments in financial instruments as identified in section 45 of MFRS C-2 must be determined in accordance with the provisions of MFRS C-16.

MFRS C-19 Payable financial instruments- Requires additional disclosures for deposits and interbank loans and loans from other borrowing entities.

It is specified that the provisions of paragraph 41.1.1 numeral 4 of MFRS C-19 will not be applicable, regarding the use of the market rate as the effective interest rate in the valuation of the financial instrument payable when both rates are substantially different and in payable financial instruments 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 MFRS C-19.

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MFRS C-20 Financial instruments to collect principal and interest – Specifies that, in the initial recognition of a financial instrument to collect principal and interest, the provisions of paragraph 41.1.1 numeral 4 of MFRS C-20 will not apply regarding the use of 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.

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

It mentions that the option at fair value of paragraph 41.3.4 of MFRS C-20 to irrevocably designate in its initial recognition a financial instrument to collect or sell, to be subsequently valued at its fair value with effects on net income, will not be applicable to entities.

C-22 Cryptocurrencies - Clarifies that the virtual assets referred to in the Law to Regulate Financial Technology Institutions (Fintech Law) are within the scope of MFRS C-22 and requires additional disclosures to those indicated in MFRS C-22 itself.

Modifications to criterion A-2 Application of particular standards

MFRS C-3 Accounts receivable - Establishes that the adoption of MFRS C-3 will be applicable only to other accounts receivable that do not accrue interest.

MFRS C-9 Provisions, contingencies and commitments – The specifications for the deposit transactions and those of subordinated debentures of forced conversion to equity were eliminated

D-3 Employee benefits – The requirement to include the net asset of defined employee benefits under other assets and the liability for employee benefits under other accounts payable is repealed

It requires the disclosure of identification of employee benefit obligations in direct short-term benefits, direct long-term benefits, termination benefits, and post-employment benefits.

D-4 Income tax - the requirement to disclose through notes to the financial statements the way in which these were determined was eliminated, explaining the bases used for their calculation.

D-5 Leases - In the event that the Bank carries out transactions as lessor, the name of capitalizable leases is changed to financial leases

It is also clarified that with regard to the provisions of paragraph 42.1.4 subsection c) and subsection d) of MFRS D-5, in order to be considered a finance lease, it will be understood that the lease term must cover most of the economic life of the underlying asset, when said lease covers at least 75% of its useful life. Likewise, 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.

Derived from the aforementioned changes, the most important accounting effects in the initial recognition as of January 1, 2022 were the following:

- i. Because the initial cumulative financial effect of adopting the change in the calculation methodology of the aforementioned allowance for credit losses of loan portfolio generated a decrease as of January 1, 2022 by \$285 in accordance with section I of the Third Transitory article of the Resolution that modifies the General Provisions applicable to Credit Institutions published on December 4, 2020, the amount was applied against the period comprehensive income.

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The initial cumulative financial effect by type of portfolio is detailed below:

Concept	Current Methodology	Previous Methodology	Initial cumulative effect (1)
Commercial portfolio	\$ 144	\$ 429	\$ 285
Total cumulative financial effect	\$ 144	\$ 429	\$ 285

¹ Amounted \$200 Net of deferred income tax.

- ii. Upon the adoption of NIF C-10 "Derivative financial instruments", the derivative financial instruments held by the Institution were recognized initially and subsequently at their fair value considering the requirements of NIF B-17 "Fair value determination", the adoption of these standards had effects mainly on the incorporation of adjustment for credit risk in the measurement of its fair value. The cumulative effect from the initial application was \$23 (\$16 net of deferred income tax).
- iii. In the adoption of NIF D-5 Leases, the Institution prospectively recognized the effects as of January 1, 2022, recording an Right-of-use asset and its corresponding Lease Liability of \$123 in the Statements of Financial Position.

Authorization of the Financial Statements

The accompanying financial statements and their notes as of December 31, 2022 were authorized for issuance on March 29, 2023, by Emilio Romano Mussali (CEO); Ernesto Ramos de la Fuente (CFO); Juan Ignacio Reynoso Echegollén (Controller), and Felipe Javier Tejeda Velasco (Director of Internal Audit).

Note 3 - Summary of significant accounting policies:

The most significant accounting policies are summarized below, considering what is noted in the "Changes in Accounting Criteria" Note issued by the Commission and MFRS mentioned in Note 2.

Accounting criteria require the use of certain accounting estimates in the preparation of financial statements. Also, Management judgment is required in the process of defining the Institution's accounting policies. Items involving a higher degree of complexity or judgment and that the assumptions and estimates are significant to the financial statements are described in paragraphs g. and i. and notes 8 and 9.

Recording, functional and reporting currencies.

Since the registration, functional and reporting currencies of the Institution are the Mexican peso, it was not necessary to carry out any conversion process.

Items included in the Institution's financial statements are measured in the currency of the primary economic environment in which the entity operates, that is, its "functional currency". The financial statements are presented in Mexican pesos, which is the reporting currency of the Institution.

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Inflation effects in financial information

According to the provisions in the MFRS B-10 "Inflation Effects", as of January 1, 2008, Mexican economy is not an inflationary environment, since the last three years there has been a cumulative inflation below 26% (threshold to define that an economy should be considered as inflationary); therefore, as of that date, it has been required to discontinue the recognition of inflation effects on financial reporting. Consequently, figures as of December 31, 2022 of the accompanying financial statements are presented in historical pesos, modified by the effects of inflation in the financial information recognized up to December 31, 2007.

Inflation rates are shown as follows:

	<u>December 31, 2022</u>
	(%)
Year	7.82
Cumulative in the last three years (not considering base year)	13.87
Cumulative in the last three years (considering base year)	19.39

a. Cash and cash equivalents

Cash and cash equivalents are initially recognized at fair value.

"Firm" immediate collection documents are recognized in accordance with the following:

- a. Transactions with entities of the country not collected less than 2 business days after the transaction that gave rise to them was carried out.
- b. Transactions with foreign entities not collected within a maximum period of 5 business days

Transactions not collected within the aforementioned terms are recorded within the items that gave rise to them.

Immediate collection documents "unless duly paid", of transactions carried out with domestic or foreign entities are registered in memorandum accounts under the line item of other memorandum accounts.

Restricted cash equivalents correspond to: i) Monetary Regulation Deposit constituted with Banxico and accruing a bank funding rate, ii) the amount of short-term interbank loans (call money granted) when this term does not exceed three business days and the currencies acquired, whose settlement is agreed on a date after the date of agreement.

High liquidity financial instruments are valued based on the business model related to each type of instrument, i.e., held for trading, held to collect principal and interest or held to collect and sell. Cash equivalents are recorded and valued at their nominal value.

Foreign currency cash and cash equivalents and foreign currency purchase and sale commitments are valued at the closing exchange rate, published by Banxico in the DOF, on the business day after the transaction or the date of preparation of these financial statements. Returns generated by cash and cash equivalents are recognized in results as they are accrued.

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Foreign currencies acquired that are agreed to be settled on a date after the sale and purchase operation is concluded, are recognized as restricted cash equivalents (currency to be received) on said date of execution, while the foreign currencies sold are recorded as an outflow of cash equivalents (currency to deliver). The counterparty must be a settlement account, creditor or debtor, as appropriate.

b. Fair value

Assets and liabilities measured at fair value are classified into Levels based on the availability of relevant input data and the subjectivity of the valuation techniques used.

The Institution classifies its assets and liabilities valued at fair value in Level 1 when the evidence of the input data is available in the main market of the asset and/or liability, and when the Institution can carry out a transaction for that asset and/or liability at the market price on the valuation date.

Assets and liabilities at fair value presented in Level 1 must be transferred to a lower Level when: i) similar assets and liabilities valued at fair value have a quoted price in an active market, but this is not observable; ii) a price in an active market does not represent fair value at the valuation date, or iii) the fair value of a liability or equity instrument is determined using a quoted price in an active market and such price requires adjustment for specific factors.

The Institution classifies its assets and liabilities valued at fair value in Level 2 when: a) the input data are different from those available in the market, but they are observable for substantially the entire term of the life of the asset and/or liability; b) the quoted prices are identical or similar in markets with infrequent transactions and sufficient volumes; c) inputs other than quoted prices are used but are observable, and d) inputs can be corroborated by the market.

Assets and liabilities at fair value presented in Level 2 should be transferred to a lower hierarchy when the adjustments made to the unobservable inputs are relevant and significant to the full valuation.

The Institution classifies its assets and liabilities valued at fair value in Level 3 when there is minimal market activity on the asset and/or liability valuation date and, therefore, the input data is not observable for the valuation.

The following securities and financial instruments are valued using adapted valuation prices provided by specialists in the calculation and supply of prices to value financial instruments authorized by the Comisión, called "price providers":

- a. Securities listed in the National Securities Registry or authorized, listed or regulated in markets recognized by the Commission.
- b. Derivative financial instruments that are listed on national derivatives exchanges or that belong to markets recognized by Banxico.
- 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 foreseen in the previous beginnings.

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Updated prices for valuation determined through the use of internal valuation models are not classified in Level 1.

The fair value at the end of the period hierarchy level of assets and liabilities is shown below:

	Level 1	Level 2	Level 3
Assets:			
Cash and cash equivalents	\$ 10,538	\$ -	\$ -
Financial instruments held for trading	17,016	-	-
Margin accounts (DFI)	1,464	-	-
DFI held for trading		4,129	-
December 31, 2022	<u>\$ 29,018</u>	<u>\$ 4,129</u>	<u>\$ -</u>
Liabilities:			
Collateral sold or pledged as guarantee	\$ 10,499	\$ -	\$ -
DFI held for trading		6,231	-
December 31, 2022	<u>\$ 10,499</u>	<u>\$ 6,231</u>	<u>\$ -</u>

Recurring inputs and valuation techniques for level 2 fair values are presented below:

Concept	Input data	Valuation technique
Derivative financial instruments	Interest rate Exchange rate Volatilities curves	Discounted future cash flows Black & Scholes

c. Margin accounts (Derivative financial instruments)

Margin Accounts are individualized accounts in which financial assets are deposited (generally cash, securities and other highly liquid assets) intended to ensure compliance with the obligations corresponding to derivative financial instruments (DFI) of operations carried out in recognized markets, to in order to mitigate the risk of non-compliance. The amount of the deposits corresponds to the initial margin and subsequent contributions or withdrawals made during the term of the contract.

Margin accounts are recognized and valued at their fair value in accordance with the provisions of each contract.

Margin accounts granted in cash in operations with DFIs carried out in recognized markets or exchanges

The margin account granted in cash (and in other cash equivalent assets) required to the Institution for the purpose of carrying out operations with DFIs carried out in recognized markets or stock exchanges, is not part of the initial net investment of said DFI, therefore which is accounted for separately from its recognition, as follows:

- The outflow of contributed resources is recognized in the Cash and Cash Equivalents caption, against a cash margin account.

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- The value of the margin account granted in cash (and in other cash equivalent assets) is modified by the partial or total settlements that the clearing house deposits or withdraws; for additional contributions or withdrawals made by the entity itself; for the returns that the margin account itself generates, as well as for the agreed commissions that correspond to the entity.
- The partial or total settlements deposited or withdrawn by the clearinghouse due to fluctuations in the prices of the DFIs are recognized within the margin account itself, affecting as a counterpart a specific account that may be of a debtor or creditor nature, depending on corresponds, and that reflects the valuation effects of the DFI prior to its liquidation. Pursuant to the foregoing, changes in the margin account do not affect the results of the period.
- The counterparty of a debtor or creditor nature represents an advance received, or else, a financing granted by the clearinghouse prior to the liquidation of the DFI.
- The returns and commissions that affect the cash margin account, other than the fluctuations in the prices of the DFIs, are recognized in the results of the period.
- Additional contributions or withdrawals made by the entity itself to the cash margin account are recognized against the Cash and Cash Equivalents caption, without affecting the results of the period.

Margin accounts granted other than cash in operations with DFIs carried out in recognized markets or exchanges

In relation to the margin account granted by the clearinghouse other than cash, as is the case of debt or equity securities, the recognition rules depend on the right of the clearinghouse to sell or give said account as collateral of margin, as well as in the non-compliance, if applicable, of the ceding entity. The assignor recognizes the margin account as follows:

- If the clearinghouse had the right to sell or pledge the financial assets that make up the margin account, the Institution reclassifies the financial asset in its Statement of Financial Position, presenting it as restricted, which follows the valuation and disclosure rules in accordance with the accounting criteria that corresponds according to its nature.
- In the event that the Institution fails to comply with the conditions established in the contract, and therefore could not claim the margin account, it is removed from its Statement of Financial Position.
- With the exception of what is established in the previous paragraph, the Institution maintains the margin account on its balance sheet.

As of December 31, 2022, the Institution presents a balance of \$1,464 in the margin accounts.

d. Investment in financial instruments

Investments in financial instruments are classified as a Negotiable Financial Instrument (NFI), whose objective is to invest with the purpose of obtaining a profit between the purchase price and the sale price, that is, based on the management of the market risks of said instrument. Since this business model operates based on the fair value of financial instruments to maximize their returns, the Institution values its portfolio at its fair value and recognizes the effects of valuation directly in net income or loss. Even though in some cases the entity collects some contractual cash flows from the NFIs, the objective of the business model is not to collect those flows, so this activity is not core, but incidental.

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The Market Risk Management area is responsible for recommending the Institution's market risk management policies, establishing risk measurement parameters, and providing reports, analyzes and evaluations to Senior Management, the Risk Committee, to the Board of Directors and risk-taking areas.

Market risk measurement quantifies the potential loss due to changes in risk factors that affect the valuation or the expected results of asset, liability or contingent liability operations, such as interest rates and exchange rates.

When making an investment in an NFI, any transaction cost is recognized immediately in the net result.

As of December 31, 2022, the Institution only holds securities classified in the IFN category, which include investments in government securities, debt securities, and bank securities.

NFIs are valued at their fair value, which is similar to their market value, based on market prices disclosed by specialists in calculating and supplying prices to value portfolios of securities authorized by the Commission, called " Price Providers". The adjustment resulting from the valuation of this category is carried directly against the results of the year.

During the 2022 financial year, the Institution did not make transfers between categories.

As of December 31, 2022, Management has not identified that there is objective evidence of impairment of any security.

As of the date of the financial statements, there were no changes or modifications in the business model.

e. Reverse repurchase agreements

Reverse repurchase agreements represent collateral financing through the delivery of cash as financing in exchange for obtaining financial assets that serve as protection in the event of default.

Acting as reported, the Institution recognizes the inflow of cash or a debit settlement account against an account payable under the heading of "Reverse repurchase agreement creditor" at the agreed price, which represents the obligation to return said cash to the reporter. Subsequently, said account payable is valued at its amortized cost by recognizing the repurchase agreement interest in the results of the year as it accrues, in accordance with the effective interest method.

The financial assets granted as collateral by the Institution were reclassified in the Statement of financial position, presenting them as restricted and are valued at their fair value.

Acting as a reporter, the Institution recognizes the outflow of Cash and Cash Equivalents, or a credit settlement account, against an account receivable under the heading of "Reverse repurchase agreements Debtors", which represents the right to recover the cash delivered. Said account receivable is valued at its amortized cost, recognizing the interest for repurchase agreements in the results of the year as it accrues, in accordance with the effective interest method.

Financial assets received as collateral by the Institution are recorded in memorandum accounts and valued at their fair value.

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Likewise, in the cases in which the Institution sells the collateral or gives it as guarantee, it recognizes in an account payable under the heading of "collateral sold or given as guarantee" the obligation to return the collateral to the one reported at the agreed price, and subsequently values it at its fair value, or at its amortized cost in the event that it is given as collateral in another reporting transaction; In addition, the control of said collaterals is recorded in memorandum accounts under the heading of "collaterals received and sold or delivered as collateral", valuing them at their fair value.

f. Security loans

In the securities loan transaction, the ownership of certain securities is transferred, receiving a prize as consideration. At the end of the transaction, there is the right to receive securities from the same issuer and, where appropriate, face value, species, class, series and expiration date, and the economic rights that they may have generated, during the term of the transaction

When the Institution acts as a lender, it recognizes the value of the transferred loan as restricted and the financial assets received as collateral, including, where appropriate, the cash managed in trust, are recognized in memorandum account and valued at their fair value.

The amount of the accrued premium is recognized in the period income, through the effective interest method during the term of the transaction, against an account receivable.

In the event that the Institution, prior to the expiration of the securities loan transaction and without breach of the conditions established in the contract by the borrower, sells the collateral received without it being delivered as collateral in a reverse repurchase agreement, recognizes the inflow of proceeds from the sale, as well as an account payable at the agreed price for the obligation to return said collateral to the borrower, which is valued at fair value. The collaterals that are agreed upon in the securities loan transactions, the ownership of which has not been transferred, are recorded in memorandum accounts.

It should be noted that the Institution, as of December 31, 2022, does not have intermediary securities lending operations as a lender.

When the Institution acts as a borrower, it recognizes the value of the loan received in memorandum accounts, valued at fair value, and the financial assets delivered as collateral are recognized as restricted. The amount of the accrued premium is recognized in the period income, through the effective interest method during the term of the transaction, against an account payable.

In the event that the Institution sells the security (object of the loan), without it being delivered as collateral, the Institution recognizes an account payable at the agreed price of the operation for the obligation to return the securities to the lender and subsequently valued at fair value.

g. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which the contract is entered into and are subsequently remeasured at fair value at the end of each reporting period. The recognition of changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, on the nature of the item being hedged. The Company designates certain derivatives such as:

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- Hedging of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges).
- Hedging of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges).
- Hedging of a net investment in a foreign operation (net investment hedges).

Derivative instruments that do not qualify for hedge accounting are classified as DFI held for trading in the Statement of Financial Position. As of December 31, 2022, the Institution only maintains positions in DFI classified for trading purposes.

The Institution carries out operations with DFIs for trading purposes whose objective is different from that of covering open risk positions assuming risk positions as a participant in the derivatives market.

All DFIs for trading purposes are recognized in the Statement of Financial Position as assets or liabilities, depending on the rights and/or obligations specified in the confirmations of terms agreed between the parties involved. Transaction costs that are directly attributable to the acquisition of the derivative will be recognized directly in results under the caption "Trading income (loss)".

In the case of DFIs listed on recognized markets or stock exchanges, the rights and obligations related to them are considered to have expired when the risk position is closed, that is, when a derivative of an opposite nature is carried out on said market or stock exchange with the same characteristics.

Regarding DFIs not listed on recognized markets or stock exchanges, the rights and obligations related to them are considered to have expired when they reach maturity; the rights are exercised by one of the parties, or said rights are exercised in advance by the parties in accordance with the conditions established therein and the agreed considerations are settled.

The fair values of the DFIs are determined based on recognized market prices or formal valuation techniques accepted in the financial field, used by the price provider. The effects of valuation are recognized in the statement of comprehensive income under the caption "Trading income (loss)"; In addition, the item "Trading income (loss)" recognizes the result of the purchase and sale that is generated at the time of the disposal of an DFI, and the loss due to impairment of financial assets from the rights established in the DFI, as well as the effect of reversion.

The exchange fluctuations that affect the fair value of the DFIs, are presented within the "Trading income (loss)", under the caption "Results for valuation at fair value of DFIs".

1. Futures and forward contracts

Futures contracts and forward contracts establish an obligation to purchase or sell an underlying asset at a future date, in the pre-determined amount, quality and price in the trading agreement. In these transactions, the party agreeing to purchase is understood to assume a long position in the contract, and the party agreeing to sell assumes a short position in the same contract.

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Forward contracts are essentially negotiable in reference to price, term, quantity, quality, collateral, place of delivery and settlement method. This type of contracts does not have a secondary market and exposes the Bank to credit risk.

Futures contracts

Futures contracts have a standardized term, quantity, quality, place of delivery and settlement method. Their price is negotiable, there is a secondary market, memorandum accounts are obligatory, and the counterparty is always a clearinghouse, thus the parties do not face significant credit risk.

For the purposes of classification in financial reporting, for DFIs that incorporate both rights and obligations, such as Forwards and Futures, the assets and liabilities positions are offset on a contract-by-contract basis. If the offsetting results in a debit balance, the difference is presented in assets under the "Derivatives" line item, and if it has a credit balance, this is presented in liabilities under the "Derivatives" line item in the balance sheet.

2. Options contracts

Options are contracts establishing the right, but not the obligation, for the acquirer to purchase or sell a financial or underlying asset at a determined price called the exercise price, on an established date or in an established period. Option agreements involve two parties; the buyer of the option pays a premium on the acquisition thereof, and in turn obtains a right, but not an obligation, and the party issuing or selling the option receives a premium and in turn acquires an obligation, but not a right.

The Option premium is recorded as an asset or liability by the Institution on the date of entering into the transaction. Fluctuations arising from the market valuation of the Option premium are recognized in the "Intermediation income" line item of the consolidated income statement. When the Option is exercised or expires, the Option premium recognized in the consolidated balance sheet as the income for the fiscal year, as well as under the "Trading income (loss)" line item, is cancelled.

3. Swaps

Swaps are contracts between two parties, establishing the bilateral obligation to exchange a series of flows for a determined period and on pre-established dates.

Interest-rate swaps are contracts establishing the bilateral obligation to exchange, during a determined period, a series of flows calculated on a notional amount, denominated in the same currency but refer to different interest rates. There are no partial or total flow exchanges, at the start or end of the contract, on the notional amount and generally in this type of agreement one party receives a fixed interest rate (variable rate in some cases) and the other party receives a variable rate.

Currency swaps are contracts establishing the bilateral obligation to exchange, during a determined period, a series of flows on a notional amount denominated in different currencies for each of the parties, which in turn refer to different interest rates. In some cases, aside from exchanging interest rate flows in different currencies, the exchange of flows can be negotiated on the notional amount over the term of the contract.

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For classification purposes in financial reporting, for DFIs that incorporate both rights and obligations, such as Swaps, the assets and liabilities positions are offset on a contract-by-contract basis. If the offsetting results in a debit balance, the difference is presented in assets under the "Derivatives" line item, if it has a credit balance, this is presented in liabilities under the "Derivatives" line item of the balance sheet.

Collateral granted and received in derivative financial instrument transactions not conducted in recognized markets or stock exchanges.

An account receivable generated from the granting of cash collateral in DFI transactions not conducted in recognized markets or stock exchanges will be presented under the "Other accounts receivable (Net)" line item, while an account payable generated from the receipt of cash collateral will be presented under the "Sundry creditors and other accounts payable" line item of the balance sheet.

Non-cash collateral granted remains under the same line item from which it originates. The account payable, which represents the obligation of the assignee to return to the assignor the non-cash collateral that has been sold, is shown in the consolidated balance sheet under the "Collateral sold or given as guarantee" line item.

The amount of the non-cash collateral for which the right to sell or give as guarantee has been granted is presented in memorandum accounts under the "Collateral received and sold or given as guarantee by the entity" line item.

i. Loan portfolio

The loan portfolio is classified according to the business model that the Institution uses to manage the loan portfolio to generate cash flows, that is, if the cash flows will come from obtaining contractual cash flows, from the sale of the loan portfolio, or from both; the business model is determined through the activities carried out by the Institution to achieve the objective of the business model.

The portfolios and products that make up the loan portfolio were evaluated by the Institution's Management to define its business model, whose characteristics in accordance with the contractual conditions were considered to carry out the cash flow testing to determine if it corresponds only to payments of principal and interest or must be valued at fair value.

As established in the Provisions, the way in which the Institution originates, administers and manages the credit portfolio shows that the business model is to generate flow (income) from conservation to maturity and on pre-established dates that correspond to payment of principal and interest on the principal amount pending payment. The tests to determine the model consisted of the analysis of the main income-generating products for the credit portfolio, which are held to maturity, as well as the analysis of contracts that include clauses whose primary objective is to monitor the performance of the borrower to prevent as far in advance as possible any eventual non-payment of the loans throughout the life of the loan. On the other hand, there are no internal, external or market incentives that promote the origination of loans with the purpose of being sold in the market in a systematic way.

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The Institution has a commercial credit portfolio, which corresponds to direct or contingent credits, including credits denominated in national and foreign currency as well as the interest they generate, granted to legal entities and intended for their commercial or financial business, including those granted to financial entities, to the credits for operations of financial factoring, discount and assignment of credit rights, entered into with said legal entities.

Credits and commercial documents in force or renewed represent the amounts actually delivered to the borrowers plus the interest that, according to the payment scheme of the credits in question, accrues. Interest collected in advance is recognized as anticipated collections under the caption "Deferred credits and anticipated collections" in the balance sheet. Said early collection is amortized during the life of the loan under the straight-line method against the results of the year in the caption "Interest income".

Credit granting is carried out based on the analysis of the borrower's financial situation and the other general characteristics established by the Law and the internal manuals and policies of the Institution.

The balance presented in the "Loan Portfolio" item of the statement of financial position shows the amounts effectively granted to the borrower. This balance incorporates the amount of any type of interest that accrues according to the credit payment scheme.

In the case of credit lines that have been granted, in which not all the authorized amount has been exercised, the unused part thereof is presented in memorandum accounts in the balance sheet under the caption "Credit commitments", including overdraft lines on checking accounts.

The Institution periodically evaluates in accordance with its policies established for such purposes, the characteristics of its business model to classify the loan portfolio based on its objective.

The Commission may, at any time, order that the financial instruments that have been classified to be valued at fair value be valued at their amortized cost, when in its opinion there are elements to conclude that their business model is to keep them to collect the contractual cash flows corresponding to its principal and interest.

Loans classified under the business model to preserve contractual cash flows are recognized at the transaction price that corresponds to the amount actually delivered to the borrowers, adding or subtracting the financed insurance, transaction costs, commissions, interest and other items collected in advance and the interest that accrues in accordance with the credit payment scheme and the contractual interest rate.

Transaction costs, commissions, interest and other items collected in advance, including those collected for loan restructuring, are recognized as a deferred charge or credit, as appropriate, within the balance of the loan portfolio and are amortized against the results of the year under the method of a straight line during the life of the loan, except those originating from revolving loans, which are amortized over a period of 12 months. The commissions known after the granting of the credit are recognized on the date they are generated against the result of the year.

Financial factoring

In the financial factoring, discount and assignment of credit rights transactions, the value of the portfolio received is recognized against the outflow of cash, the agreed capacity recognized as other accounts payable and, where appropriate, the financial income to accrue derived from factoring, discount or assignment of credit rights transactions.

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The financial income to be accrued is determined by the difference between the value of the received portfolio deducted from the capacity and the cash outflow. Said financial income to accrue is recognized within deferred credit and advanced charges and in the statement of comprehensive income according to the effective interest rate.

When the transaction generates interest, it is recognized as it accrues.

The amount of the advances that are granted is recognized as part of the transactions of financial factoring, discount or assignment of credit rights, within the concept of commercial loans.

Subsequent recognition

Categorization of the loan portfolio by level of credit risk

The Institution classifies loans from their initial recognition into credit risk stages, depending on the significant increase in credit risk that they show, measured in the number of overdue billing arrears or the number of days in arrears depending on the type of loan that it is treated in accordance with the provisions of the Provisions:

Stage 1

- Commercial loans with arrears less than or equal to 30 days

Stage 2

- Commercial loans with days in arrears greater than 30 days and less than 90 days.
- Revolving and non-revolving Consumer Loans, as well as for microcredits when the number of overdue billings is greater than 1 but less than or equal to 3

Stage 3

- Commercial loans with days in arrears greater than or equal to 90 days.

The unpaid balance in accordance with the payment conditions established in the loan agreement, is recognized as a loan portfolio with Stage 3 credit risk when:

1. It is known that the borrower is declared in bankruptcy, in accordance with the Bankruptcy Law (LCM by its Spanish acronym).

Loans in Bankruptcy that continue to make payments in terms of the LCM are classified as a portfolio with Stage 3 credit risk if they have incurred in the cases set forth in numeral 2 below

2. Immediate collection documents that have not been collected in accordance with the established term.

Loans with stage 3 or stage 2 credit risk are returned to the portfolio with stage 1 credit risk, in which the due balances pending payment (principal and interest, among others) are fully settled or, that, being restructured or renewed, complying with the sustained payment of the credit.

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Renegotiation of loan portfolio

For restructurings carried out by the Credit Institution with stage 1 and 2 credit risk, or that are partially settled through renewal, the profit or loss in the renegotiation is determined by the difference between the carrying amount and cash flows. cash, the result is recorded as a deferred charge or credit against the profit or loss from loan portfolio renegotiation in the statement of comprehensive income.

To determine the profit or loss in the renegotiation, the following is considered: i) carrying amount of the loan to the amount actually granted to the borrower, adjusted for accrued interest, other financed concepts, principal and interest collections, as well as for withdrawals, write-offs, bonuses and discounts that have been granted, and, where appropriate, transaction costs and items collected in advance, without considering the preventive allowance for credit risks and ii) the future cash flows determined on the amount restructured or partially renovated, discounted at the original effective interest rate.

The determination of profit or loss from renegotiation is not applicable to credit cards, credit facilities or loans with stage 3 credit risk.

The amount of the partially restructured or renewed loan is the basis for applying the original effective interest rate, which is only adjusted, where appropriate, to include transaction costs, commissions and other items collected in advance generated in the renegotiation. Transaction costs and items collected in advance pending amortization, as well as those originating from the renegotiation, are amortized during the new loan term based on the effective interest rate.

If the Institution renews a loan, it will be considered that there is a new loan; thus, the previous loan must be canceled in the case of a total renewal.

Those loans with stage 2 or stage 3 credit risk that are restructured or renewed may not be classified in a stage with lower credit risk due to said restructuring or renewal, as long as there is no evidence of sustained payment.

Loans with a single payment of principal at maturity, regardless of whether interest is paid periodically or at maturity, that are restructured during their term or are renewed at any time, are transferred to the next immediate category with the highest credit risk, and they remain in said stage until such time as there is evidence of sustained payment.

Drawn credit facilities, which are restructured or renewed at any time, are transferred to the next immediate category with the highest credit risk, except when there are elements that justify the debtor's ability to pay and have: a) settled in full of the demandable interest, and b) covered all the payments to which it is obligated in terms of the contract on the date of the restructuring or renewal.

Disbursements made under a credit facility, when restructured or renewed independently of the credit facility that covers them, are evaluated based on the characteristics and conditions applicable to the restructured or renewed disbursement or disbursements. If derived from this evaluation it is concluded that one or more of the disbursements granted under a credit facility must be transferred to the next immediate category with greater credit risk, due to its restructuring or renewal and these disbursements, individually or as a whole, represent at least 25% of the total balance drawn from the credit facility on the date of the restructuring or renewal, then the total drawn balance, as well as subsequent disbursements, are transferred to the next immediate category with higher credit risk.

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The total balance drawn from the credit facility is transferred to a classification with lower credit risk, if there is evidence of sustained payment of the disbursements that originated said transfer, and all the obligations due from the total credit facility on the assessment date.

Loans with stage 1 and 2 credit risk, other than loans with a single payment of principal at maturity and credit facilities that are restructured or renewed without the expiration of at least 80% of the original term of the loan, remain in the same category, only when:

- a. the borrower covered all the interest accrued on the renewal or restructuring date, and
- b. the borrower covered the principal of the original amount of the loan, which should have been covered on the renewal or restructuring date.

Likewise, loans with stage 1 and 2 credit risk, other than loans with a single payment of principal at maturity and credit facilities that are restructured or renewed during the course of the final 20% of the original term of the loan, are transferred to the immediate category with the highest credit risk, unless the borrower: a) paid all the interest accrued on the date of the renewal or restructuring; b) covered the principal of the original amount of the loan, which at the date of the renewal or restructuring should have been covered, and c) covered 60% of the original amount of the loan.

If the conditions described in the two previous paragraphs are not met, the loan is transferred to the next immediate category with the highest credit risk from the moment it was restructured or renewed and until there is evidence of sustained payment.

Loans with stage 1 and 2 credit risk, which are restructured or renewed on more than one occasion, are transferred to the portfolio with stage 3 credit risk, except when, in addition to the conditions established in the preceding paragraphs, the Institution has elements that justify the debtor's ability to pay.

The Institution recognizes the balance pending amortization corresponding to the profit or loss due to the renegotiation effect in the period income when the loan is transferred to the loan portfolio with stage 3 credit risk.

In the event that various loans granted to the same borrower are consolidated in a restructuring or renewal, each of the consolidated loans is analyzed as if they were being restructured or renewed separately and, if derived from this analysis, it is concluded that one or more of said loans must be transferred to the portfolio with stage 2 or stage 3 credit risk as a result of said restructuring or renewal, then the total balance of the consolidated loan is transferred to the category that corresponds to the loan subject to consolidation with the highest credit risk.

Loans classified in credit risk stage 2 as a result of a restructuring or renewal are periodically evaluated in order to determine if there is an increase in their risk that causes them to be transferred to credit risk stage 3.

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Those restructurings that on the date of the transaction present payment compliance for the total amount of principal and interest payable and only modify one or several of the following original loan conditions are not subject to be transferred to a category with greater credit risk, due to their restructuring effect:

- i. Guarantees: only when they imply the extension or replacement of guarantees by others of better quality
- ii. Interest rate: when the agreed interest rate is improved to the borrower
- iii. Currency or unit of account: when the rate corresponding to the new currency or unit of account is applied
- iv. Payment date: only in the event that the change does not imply exceeding or modifying the frequency of payments. In no case the change in the payment date allows the omission of payment in any period
- v. Extension of the credit facility: in the case of consumer loans granted through revolving credit facilities

The restructurings and renewals of one or more loans granted to a client will be approved by the corresponding Credit Committee. In the event of a restructuring, the sustained payment capacity will be considered at all times in accordance with the provisions of the regulation.

Suspension of interest accrual

As soon as the unpaid balance of any loan is considered as having stage 3 credit risk, the accumulation of its accrued interest is suspended, even in those loans that contractually capitalize interest to the amount of the debt. Additionally, the balance pending amortization of transaction costs is recognized, as well as the items collected in advance and the effect of the profit or loss in renegotiation pending amortization against the results of the year.

While the loan is maintained with stage 3 credit risk, control of interest is kept in memorandum accounts, in the event said interest is collected, it is recognized directly in the period income and in the event that they are written-off or penalized, they are canceled from memorandum accounts without affecting the heading of the preventive allowance for credit risks

Penalties, eliminations and recoveries of loan portfolio

The unpaid balance of the loan against the preventive allowance for credit risks. If the penalized loan exceeds the balance of its associated allowance, before carrying out the penalty, such allowance is increased up to the amount of the difference.

The recovery of loans previously written off or eliminated are recognized in the period income, in the heading of preventive allowance for credit risks, unless the recoveries come from payments in kind. The costs and expenses incurred for the recovery of the loan portfolio are recognized as an expense within the item of other operating income (expenses).

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Withdrawals, write-offs, bonuses and discounts, partially or in full, are recorded with a charge to the preventive allowance for credit risks. In the event that the amount of these exceeds the balance of the allowance associated with the loan, previously allowances are made up to the amount of the difference.

j. Allowance for credit losses of loan portfolio

Due to the resolution made by the Commission published in the DOF on March 13, 2020, and modified on December 4, 2020, as of January 1, 2022, the Institution calculates and constitutes the allowance for credit losses of loan portfolio in a scheme of expected credit losses, qualifying from their initial recognition the loans of its loan portfolio based on the criterion of significant increase in credit risk. This criterion is applied from the moment of origination and throughout the life of the loan, even when it is renewed or restructured.

The allowance of expected losses is made considering 3 stages depending on the level of loan impairment of the assets, stage 1 being the one that will incorporate the financial instruments whose credit risk has not increased significantly since their initial recognition and the allowance must be established for a period of 12 months; stage 2 incorporates the instruments in which there is a significant increase in credit risk since its initial recognition and finally, stage 3 includes the instruments in which there is objective evidence of impairment.

To determine the preventive allowance of credit risk, the Institution uses the general methodology with the Standard Approach according to the rules and procedure established by the Commission for each type of portfolio as follows:

Commercial Loan Portfolio

Prior to qualifying the loans of its Commercial Loan Portfolio, the Institution classifies each of the loans in one of the following groups, depending on whether they are granted to:

- Trustees acting under trusts, not included in the previous section, as well as credit schemes commonly known as "structured".
- Financial entities
- Legal entities not included in the previous points and individuals with business activity. In turn, this group should be divided into the following subgroups:
- With annual Net Income or Net Sales less than the equivalent in national currency to 14 million UDIs. With annual Net Income or Net Sales equal or greater than the equivalent in national currency to 14 million UDIs.

Stages in credit risk

From their initial recognition, the Entity classifies loans into the following stages of credit risk, depending on the significant increase in credit risk that they show, in accordance with the following:

Stage 1 For loans with arrears less than or equal to 30 days.

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Stage 2 For loans with arrears greater than 30 days and less than 90 days, or that fail to meet any of the criteria described in stage 1 or 3.

Stage 3 For loans with arrears greater than or equal to 90 days or when the loan is in stage 3 in accordance with the terms established in Accounting Criterion B-6 "Loan Portfolio" and this chapter.

* In the case of counting the days in arrears, the institutions may use monthly periods, regardless of the number of days in each calendar month, in accordance with the following equivalences, whenever the provisions so require.]

30 days a calendar month

90 days three calendar months

Determination of allowance for credit losses

On a quarterly basis, the Institution qualifies, establishes and registers in its accounting the Allowance for loan losses for each of the loans of its Commercial Loan Portfolio, using for this purpose the balance of the debt corresponding to the last day of the months of March, June, September and December, adjusting to the methodology and information requirements established in the Provisions.

For those loans classified in Stage 1 or Stage 3, the percentage used to determine the Allowance to be established for each loan is the result of multiplying the Probability of Default by the lost given default to the Exposure to Default.

Provisions Stage 1 o 3i = $PI_i \times SP_i \times EI_i$

For those loans classified in Stage 2 with payment of principal and periodic interests and revolving loans in accordance with the following formula:

$$\text{Reservas Vida Completa}_i = \frac{PI_i \times SP_i \times EI_i}{(1+r_i)} * \left[\frac{1 - (1-PI_i)^n}{PI_i} \right] - \frac{PI_i \times SP_i \times PAGO_i}{r_i(1+r_i)} * \left[\frac{1 - (1-PI_i)^n}{PI_i} \right] + \frac{PI_i \times SP_i \times PAGO_i}{r_i(r_i + PI_i)} * \left[1 - \left(\frac{1-PI_i}{1+r_i} \right)^n \right]$$

For those loans classified in Stage 2, with a single amortization at maturity of principal and interest or a single amortization of principal at maturity and periodic payment of interest according to the following formula:

$$\text{Reservas Vida Completa}_i = \frac{PI_i \times SP_i \times EI_i}{(1+r_i)} * \left[1 - \left(\frac{1-PI_i}{1+r_i} \right)^n \right]$$

Allowances for stage 2 are:

$$\text{Reservas Etapa 2}_i = \text{Max}(\text{Reservas Vida Completa}_i, PI_i \times SP_i \times EI_i)$$

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i. Determination of Probability of Default and Loss Given Default

The Institution calculates the Probability of Default and Loss Given Default depending on the number of defaults in immediately consecutive periods prior to the calculation date, following the procedures of the Provisions using for this purpose, a Total Credit Score according to the following:

$$Puntaje\ Crediticio\ Totali = \alpha \times (Puntaje\ Crediticio\ Cuantitativoi) + (1-\alpha) \times (Puntaje\ Crediticio\ Cualitativoi).$$

- The Quantitative Credit Score is the score obtained for the borrower when evaluating the risk factors established in Appendix 18, 20, 21 or 22 of the Provisions, as applicable.
- The qualitative credit score is the score obtained for the borrower when evaluating the risk factors established in Appendix 18, 20 or 22 of the Provisions, as applicable.

ii. Determination of Exposure at Default

The Institution calculates the Exposure at Default for balances drawn from uncommitted credit facilities that are unconditionally cancelable or, in practice, that allow automatic cancellation at any time and without prior notice from the Institutions; as long as said Institutions demonstrate that they constantly monitor the financial situation of the borrower and that their Internal Control Systems allow the cancellation of the facility in the event of signs of deterioration of the borrower's credit quality:

$$EI\ i = Si$$

For credit facilities that do not meet the above requirements, the Institution uses the procedures described in the Provisions.

Credit risk hedging

The Institution recognizes real guarantees, personal guarantees and credit derivatives in the estimation of the Severity of Credit Loss, in order to reduce the reserves derived from the portfolio rating.

Personal guarantees

The Institution, in order to adjust the preventive allowance for credit risk, recognizes personal guarantees, Credit Insurance, as well as credit derivatives indicated in the Provisions, adjusting to the requirements established in the aforementioned Provisions. The guarantor's Probability of Default replaces that of the borrower.

The Institution identifies the hedged portion and the exposed portion of the loan. The Allowance of the exposed portion will be determined using the Pli and the SPi of the borrower.

As of December 31, 2022, there are no additional estimates.

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k. Other accounts receivable

Accounts receivable other than the Institution's loan and collection rights portfolio, represent, among others, loans to officials and employees, balances in favor of taxes, settlement accounts and debtors for collateral granted in cash

The Institution creates an allowance that reflects the degree of irrecoverability of the account receivable based on the experience of losses or non-payment and the amount of the debt is reserved in its entirety without exceeding the following terms: a) to 60 calendar days following their initial recording, when they correspond to unidentified debtors, and b) 90 calendar days following their initial recording, when they correspond to identified debtors.

Said estimate is not constituted for balances in favor of taxes and value added taxes. The income accrued from the management of the trusts that are suspended from accumulation and are not collected, are kept in memorandum accounts. When accrued income is collected, it is recognized directly in the results of the year.

l. Property, furniture and equipment

As of January 1, 2008, property, furniture and equipment are expressed at their historical cost, and acquisitions made in Mexico up to December 31, 2007 at up-to-date values are determined by applying factors derived from the Investment Units (Unidades de Inversión, UDI) to their acquisition costs until December 31, 2007.

Property, furniture and equipment are subject to annual impairment tests only when there are signs of impairment. These are therefore shown at amended historical cost, less accumulated depreciation and any impairment losses.

Depreciation is calculated by the straight-line method based on the useful lives of the assets estimated by the Management of the Institution, applied to the reduced furniture and equipment values from their residual value in both years.

m. Prepayments

Prepayments recorded under the "Other assets" line item represent disbursements made by the Institution in which the inherent benefits and risks in goods to be acquired or the services to be received have not yet been transferred. Prepayments are recorded at cost and are presented in the balance sheet as current assets or non-current assets, depending on the line item under which they are to be recorded. Once the goods and/or services for which the prepayments are received, they must be recorded as an asset or an expense in the income statement for the period, according to their respective nature.

n. Deposits

Deposits is made up of immediately demandable deposits that include checking accounts, savings accounts, checking account deposits, and deposits whose destination is the assistance of communities, sectors or populations derived from natural catastrophes, among others.

Time deposits include, among others, certificates of deposit that can be withdrawn on pre-established days, bank acceptances and promissory notes with yield payable at maturity;

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The global deposit account without movements includes the principal and interest of the deposit instruments that do not have an expiration date, or that, having it, are renewed automatically, as well as transfers or investments expired and not claimed, to referred to in article 61 of the Credit Institutions Law.

Liabilities arising from traditional deposits, including securities issued at nominal value, are recorded based on the contractual value of the operations, recognizing accrued interest, determined by the days elapsed at the end of each month, which are charged to the results for the year as accrued. The contract amount is similar to its amortized cost.

In securities placed at a price other than nominal value, in addition to what is indicated in the previous paragraph, a deferred charge or credit is recognized, as the case may be, for the difference between the nominal value of the securities and the amount of cash received by them. Said deferred charge or credit is amortized under the straight-line method against the result of the corresponding year, during the term of the titles that gave rise to it.

Those securities that are placed at a discount and do not accrue interest are initially recorded based on the amount of cash received for them. The difference between the nominal value of said securities and the aforementioned amount of cash is recognized in the results of the year according to the effective interest method.

Issuance expenses are initially recognized as deferred charges and are amortized against the results of the year, based on the term of the securities that gave rise to them.

o. Interbank loans and loans from other entities

Interbank loans and loans from other entities refer to deposits and other loans obtained from Banks, which are recorded at the contractual value of the obligation, with interest being recognized in income as it accrues. Interbank loans received within 3 days or less are presented under the "Interbank loans and loans from other entities - Immediate enforceability" line item in the balance sheet.

p. Provisions

Liability provisions represent current obligations for past events which will probably (more likely than not) require the outflow of economic resources in the future.

q. Incurred and deferred tax income (Impuesto Sobre la Renta, ISR)

Incurred and deferred tax is recognized as an expense in the income for the period, except when it arises from a transaction or event recognized outside of income for the period as other comprehensive income or recognized directly in equity.

The Institution determines the deferred tax on temporary differences, tax losses and tax credits, from the initial recognition of the items and at the end of each period. Deferred tax arising from temporary differences is recognized using the asset and liability method, which compares the accounting and tax values of the assets and liabilities. This comparison gives rise to temporary differences, both deductible and cumulative, which, together with the tax loss carryforwards and tax credit for the allowance for credit losses pending deduction, are subject to the tax rate at which the items will be reversed. The amounts stemming from these three items correspond to recognized deferred tax assets and liabilities.

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r. Employees' Statutory Profit Sharing (ESPS)

Deferred Employees' Statutory Profit Sharing (ESPS) is recognized under the comprehensive asset-and-liability method, which consists in recognizing a deferred ESPS for all differences between accounting and tax values of the assets and liabilities in which their payment or recovery is likely.

When it is considered that the payment of ESPS is at a lower rate than the current legal rate, since the payments is subject to the limits established by the applicable laws, the following procedure is carried out to determine the deferred ESPS:

- a. Temporary differences existing at the date of the financial statements are determined,
- b. ESPS rate expected to be incurred in the following years is determined based on the financial and tax projections of such years.
- c. ESPS rate mentioned in b) above is applied to the amount of the temporary differences mentioned in a) above.

Employees' Statutory Profit Sharing (ESPS) current and deferred is presented in the income statement under administration and sales expense.

The Institution recognizes in the current and deferred ESPS the effects of uncertainty in its uncertain tax positions, considering the same standards used for the determination of income tax. See subsection i.

s. Employees' benefits

The Institution's employee benefits, including benefit plans, are described as follows.

Direct benefits (salaries, over time, vacation, holidays, etc.) are recorded in income as they accrue, and their liabilities are stated at their nominal value, due to being short-term. In accordance with the legal or contractual provisions, paid absences are not cumulative. Post-employment benefits are cumulative remuneration that generates future benefits for employees and are offered by the Institution in exchange for current employee services. The rights to those benefits are granted to the employee during their employment relationship and are acquired by the employee and/or the beneficiaries upon retirement from the entity and/or upon reaching the age of retirement or any other eligibility condition. The Institution provides medical benefits, seniority premiums and voluntary or involuntary severance pay, retirement lump-sum payments in connection with a formal or informal pension plan, etc. The right to receive those benefits generally depends on the employee having worked up to retirement age and completed a minimum 5 years of service.

Post-employment benefits are classified as follows:

Defined contribution plans: are pension plans under which the Institution pays fixed contributions to a separate entity. The Institution has no legal or assumed obligations to pay additional contributions if the fund fails to maintain sufficient assets with which to pay all employees the benefits related to service in the current and past periods. Contributions are recorded as employee benefit expenses on the date on which the contribution is due.

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Defined benefit pension plans: are plans whereby the entity's responsibility ends upon the payment of the benefits, the amounts of which are determined on the basis of a formula or scheme established in the pension plan (seniority premium benefits received by an employee upon retirement, pension payments, etc.), depending on one or more factors, such as the age of the employee, years of service and compensation.

The liability recognized in the balance sheet with regard to defined benefit plans is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by external actuaries hired by the Institution using the projected unit credit method.

The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using the discount rates (in accordance with MFRS D-3) denominated in the currency in which the benefits are to be paid and with similar maturities to those of the pension liability.

Re-measurements are plan gains or losses arising between defined benefit assets and liabilities, which are recognized in Other Comprehensive Income (OCI), and subsequently and gradually recognized in net profit or loss based on the average remaining working life, eliminating the corridor approach or fluctuation band, in the same proportion that OBDs and PAs decrease due to early settlement of obligations, an amendment to the plan and/or personnel downsizing.

The termination benefits have been analyzed on the basis of the Institution's accounting policies and payments made, and the Management determined that those payments are noncumulative and without pre-existing conditions. They are therefore considered to be termination benefits and are recorded at the time the event occurs.

The Institution provides short-term employee benefits, which can include wages, salaries, annual bonuses and bonuses, as applicable, payable over the following 12 months.

The Institution determines the net financial expense (income) by applying the discount rate to the net defined benefit liability (asset).

t. Creditors and other accounts payable

This line item includes creditors for the settlement of transactions, collateral received in cash for transactions with derivative instruments, acceptances on behalf of customers, taxes payable, incentives and employee benefits, as well as other obligations.

u. Stockholders' Equity

Share capital, capital reserves and prior fiscal years' income shown at December 31, 2021 and 2020 are expressed at their historical cost. All movements occurring prior to January 1, 2008 are expressed at their up-to-date values, determined by applying UDI factors to their historical values up to December 31, 2007.

v. Comprehensive income

Comprehensive income is made up of net income and the remeasurement of defined employee benefits recognized in other comprehensive income, which is reflected in stockholders' equity and does not constitute capital contributions, reductions, and distributions. The amounts of the comprehensive income for 2022 are expressed in historical pesos.

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w. Revenue recognition

i. Interest income

Returns generated by cash and cash equivalents and investments in financial instruments are recognized in income as they accrue, in the latter case, according to the effective interest method

In reverse repurchase agreements, interest for reverse repurchase agreements is recognized in the period income as it accrues, in accordance with the effective interest method.

Recognition of interest from the loan portfolio is made as it accrues, except for what refers to interest from the portfolio with credit risk in Stage 3, whose income is recognized until it is actually collected. Commissions charged for the initial granting of loans are recorded as a deferred credit, which is amortized against the period income, under the straight-line method during the life of the loan.

ii. Income from custody services and administration and management of trusts

The recording of income from trust management and income derived from custody or administration services are recognized in the results of the year when the service obligations established in the contract with the client have been fulfilled.

iii. Financial income from factoring

Financial income to be accrued in factoring operations is recognized as a deferred credit and is recognized in the income statement even during 2022 under the straight-line method.

x. Related parties

In the normal course of its operation, the Institution carries out transactions with related parties. Transactions with related parties are understood to be those in which they are debtors of the Institution, in deposit transactions or other availabilities or loans, credits or discounts, granted revocably or irrevocably and documented by means of debt securities or covenants, restructuring, renewal or modification, including net positions in favor of the institution for derivative transactions and investments in securities other than shares.

Related people, among others, are individuals or legal entities who directly or indirectly have control of 2% or more of the securities representing the Institution equity or its holding company or financial entities and companies that are members of the financial group, members of the board of directors of the Institution, of the holding company or of the financial entities and companies that are members of the financial group, as well as the spouses and persons who are related to the persons included in this paragraph.

Related parties are also considered legal entities, as well as their counselors and officials, in which the Institution or the holding company of the financial group directly or indirectly have control of 10% or more of the securities representing their equity.

Legal entities in which the officials of the Institution are directors or administrators or occupy any of the first three hierarchical levels in said legal entities.

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y. Foreign currency position

Transactions in foreign currency and UDI are initially recorded in the recording currency at the rates of exchange or securities published by Banxico in the DOF on the business day following the transaction. Assets and liabilities denominated in the said currency are converted at the prevailing exchange rate at the balance sheet date. Differences arising from the exchange rate and UDI values between the dates of the transactions and their settlement or valuation are recognized in income at the close of the fiscal year, within intermediation income.

z. Fees to the Institute for the Protection of Banking Savings (Instituto para la Protección al Ahorro Bancario, IPAB by its Spanish acronym)

Fees paid by full-service banks to the IPAB are undertaken to establish a system for protecting bank savings, in favor of parties conducting guaranteed transactions in the terms and with the limitations stipulated in the law, as well as to regulate the financial support granted to full-service banks for the protection of the saving public's interests.

Bank contributions to this institute must be paid in a timely manner. The contributions made for this item amounted to \$200, which were charged directly to income of the year.

aa. Custody and management operations

Management operations include those conducted by institutions on behalf of third parties, such as the sale and purchase of securities and DFIs, repurchase agreement transactions and securities lending.

Securities held by third parties can be sold, administered or transferred according to the conditions set forth in the contract. Due to the essence of this type of operations, there is no transfer of ownership of the assets in custody or under Management; however, the custodian is responsible for it and therefore assumes a risk in the event of its loss or damage.

Therefore, in the event that the Institution has an obligation with the depositor for the loss or damage of the asset in custody or administration, the corresponding liability is recorded against the result of the year at the moment in which it is known, regardless of any action of the depositor aimed at repairing the loss or damage.

Since these are not the property of the Institution, they do not form part of the assets; however, the estimated amount for which it would be required to respond to its customers for any future eventuality is recorded in memorandum accounts, with the exception of cash received for the payment of services on behalf of third parties.

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The determination of the valuation of the estimated amount of assets in custody or under Management, as well as investment banking operations on behalf of third parties, is made on the basis of the operation carried out in accordance with the following:

i. Receiving payments for services on behalf of third parties

The cash inflow for the payment of services in restricted cash and cash equivalents is recognized against the corresponding liability: at the time of payment for the respective service on behalf of third parties, the aforementioned liability is cancelled against the previously restricted cash and cash equivalents. With respect to the payment of services made on behalf of the account holder, where the service provider holds an account with the entity for the purpose of receiving such payments, the corresponding payment is reclassified in the "Deposits" line item.

ii. Investment in securities, repurchase agreements and securities lending

Investment operations in financial instruments carried out by the Institution on behalf of third parties, the titles received are recognized and valued at their fair value.

The repurchase agreements and securities loans carried out by the Institution on behalf of third parties, including the collaterals associated with said operations, are recognized and valued in accordance with the provisions of the Accounting Criterion "Repurchase agreements" and "Securities Loans" included in this Note.

Revenues derived from custody or administration services are recognized in the results of the year as they accrue when the service obligations established in the contract have been fulfilled.

In the event that the assets in custody are also under administration, they are controlled separately from the assets received in custody in memorandum accounts.

bb. Financial information by segments

The Accounting Criteria establish that for the purpose of identifying the different operating segments of full-service banks, their activities must be segregated in accordance with the following minimum segments: i) loan transactions, ii) treasury and investment banking operations, iii) operations on behalf of third parties. Likewise, based on relative importance, additional operating segments or sub-segments can be identified.

cc. Transfer and derecognition of financial assets

The Institution acting as recipient recognizes a financial asset (or portion thereof) or a group of financial assets (or portion of said group) in its statement of financial position, only if it acquires the contractual rights and obligations related to said financial asset (or portion thereof). If it meets this then do the following:

- a. It recognizes the financial assets received at their fair value, which, presumably, corresponds to the price agreed upon in the transfer operation. Subsequently, said assets are valued according to the business model in which the financial asset was classified.

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- b. Recognizes the new rights obtained or new obligations incurred as a result of the transfer, valued at fair value.
 - c. Derecognized the considerations granted in the operation at their net book value and recognizing in the results of the year any item pending amortization related to said considerations.
 - d. Recognizes in the year's results any differential, if any, due to the transfer operation.
- dd. Compensation of financial assets and financial liabilities

Financial assets and financial liabilities are offset in such a way that the debit or credit balance is presented in the statement of financial position, as appropriate, if and only if there is a legally enforceable and current right to offset the financial asset and the financial liability in any circumstance and, in turn, it is intended to settle the financial asset and the financial liability on an offsetting basis or to realize the financial asset and settle the financial liability simultaneously.

The following financial assets and liabilities are subject to enforceable compensation agreements:

	Financial assets shown in the Statement of Financial Position	Impact of compensation agreements	Collaterals	Cash amount	Net amount
Derivative financial instruments	<u>\$ 362,674</u>	<u>\$ 358,545</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,129</u>

	Financial liabilities shown in the Statement of Financial Position	Impact of compensation agreements	Collaterals	Cash amount	Net amount
Derivative financial instruments	<u>\$ 364,776</u>	<u>\$ 358,545</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,231</u>

Note 4 - Foreign currency position:

As of December 31, 2022, the Institution had the following monetary assets and liabilities in millions of dollars and Euros.

	2022	
	USD	EUR
Cash and cash equivalents	112	(1)
Cuentas de Margen (IFD)	69	
Investments in financial instruments	-	-
Derivatives	(191)	1
Loan portfolio	589	1
Deposits	(325)	-
Bank loans	-	-
Liabilities	(195)	(1)
Other	5	-
Long position - Net	<u>64</u>	<u>-</u>

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As of December 31, 2022, the exchange rate at the end of the day or at the preparation of financial statements published by Banxico and used by the Institution to value its assets and liabilities in foreign currency (translated into US dollars) was \$19.5089 per US dollar.

As of December 31, 2022, the exchange rate was \$ 19.5089 per US dollar and \$20.8199 per Euro.

The following summarizes the main transactions carried out during 2022 by the Institution (excluding the acquisition or sale of furniture and equipment for its own use), together with its interest income and expenses in dollars and Euro:

	2022 (millions)	
	USD	EUR
Interest income	262	4
Interest expense	(268)	(4)
Others	(147)	(5)

The "Others" concept, is mainly integrated by the effect of exchange rate appreciation.

Note 5 - Cash and cash equivalents:

Cash and cash equivalents are made up as follows:

	National currency 2022	Valued foreign currency 2022	Total as of December 31 2022
Cash	\$ -	\$ -	\$ -
Deposits in Banxico *	5,196	1,208	6,404
Domestic and foreign banks	28	-	28
Disponibilidades restringidas	<u>3,142</u>	<u>964</u>	<u>4,106</u>
	<u>\$ 8,366</u>	<u>\$ 2,172</u>	<u>\$ 10,538</u>

As of December 31, 2022 the Institution has restricted cash equivalents by \$4,106, which correspond to 24, 48 and 72-hour currency purchases by \$964 and monetary Call Money operations with Banxico by \$3,142.

During 2022, interbank loans (call money) were made with HSBC México, S. A. IBM and Nacional Financiera SNC at an average rate of 7.99% and 7.51, documented through framework contracts. The average terms at the end of the year were one and three.

As of December 31, 2022, there are overdrafts in checking accounts by \$35 and currencies to be delivered by \$11 that are presented within Sundry creditors and other accounts payable.

Balances in foreign currency correspond to \$112 US Dollar , \$(1) EUR translated into the exchange rate of \$19.5089, and \$20.8199 respectively as of December 31, 2022.

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The currencies to be delivered and received for sales and purchases to be settled in 24, 48 and 72 hours, valued in national currency, are made up as follows:

	Currencies To deliver 2022	Currencies to receive 2022
USD	\$ -	\$ 975
Other currencies	<u>(11)</u>	<u>-</u>
	<u>\$ (11)</u>	<u>\$ 975</u>

The net amount of foreign exchange to be received and delivered is equal to \$964.

Note 6 - Investment in financial instruments:

These investments in financial instruments are subject to various types of risks, which may be associated with the market in which they operate, interest rates associated with the term, exchange rates, and inherent credit and market liquidity risks.

The risk management policies, as well as the analysis of the risks to which the Institution is exposed, are described in Note 24.

The position in investments in financial instruments in each category is as follows:

	December 31, 2022			
	Amount by price hierarchy for valuation			Fair Value
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Financial instruments held for trading				
Government debt:				
Domestic				
Bonds	6,802	-	-	6,802
Cetes	7,735	-	-	7,735
Udibonos	2,497	-	-	2,497
Others	<u>(7)</u>	<u>-</u>	<u>-</u>	<u>(7)</u>
Subtotal of Financial Instruments for trading	<u>17,027</u>	<u>-</u>	<u>-</u>	<u>17,027</u>
*Reclasification of realized to interest	<u>(11)</u>	<u>-</u>	<u>-</u>	<u>(11)</u>
Total of Financial Instruments for trading	<u>17,016</u>	<u>-</u>	<u>-</u>	<u>17,016</u>

The "Others" concept, is mainly intergated by IPABONOS and BondesF.

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Note 7 – Repurchase Agreement transactions:

As of December 31, 2022, the positions by type of securities subject to reverse repurchase agreements, with the Institution acting as a borrower, are as follows:

	December 31, 2022		
	Repurchase debtors	Collaterals received and sold by repurchase agreement	Net position
Financial Instruments for trading			
National Government Securities			
Bonds	12,000	(1,520)	10,480
Cetes	-	-	-
Udis	-	-	-
Others	<u>13,000</u>	<u>(2,202)</u>	<u>10,798</u>
Total	<u>25,000</u>	<u>(3,722)</u>	<u>21,278</u>

The “Others” concept, is mainly integrated by IPABONOS \$8,111 and BondesF \$4,889.

The amount of interest accrued in favor, which was recognized through profit or loss, amounts to \$1,757 in 2022, which is recorded under interest income in the statement of comprehensive income.

As of December 31, 2022, the Reverse repurchase agreement transactions with the Institution acting as lender (Creditors for reverse repurchase agreements) are as follows:

Type of instruments	Credit balances 2022
Government securities	
Cetes	\$ 827
Bonds	1,520
Others	<u>2,200</u>
Total	<u>\$ 4,547</u>

The “Others” concept, is mainly integrated by IPABONOS \$613 and BondesF \$1,587.

The amount of interest accrued expensed, which was recognized through profit or loss, amounts to \$102 in 2022, which is recorded under interest expense in the statement of comprehensive income.

The average term of reverse repurchase agreement transactions carried out by the Institution as a repurchase agent is 1 days in 2022 and as a borrower it is 1 days in 2022.

As of December 31, 2022, the collaterals received and delivered in reverse repurchase agreements amount to \$25,000 and \$3,722 respectivamente y representan títulos en valores gubernamentales por 251,130,429 títulos, así como 37,006,846 títulos respectivamente.

Due to the liquidity needs to cover payments in favor of customers early in the day, the product "Special Repurchase with the Central Bank" was registered, which allows carrying out a repurchase operation with the Bank of Mexico with which the amount of the overdraft line fee increases by the amount reported and this allows you to cover early customer payments.

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Note 8 – Derivative Financial Instruments (DFI):

In the Statement of Financial Position, the balances of the DFI item are integrated as shown below:

	Received	Delivered	2022
Forwards	\$ 392	\$ (998)	\$ (606)
Packages	-	(230)	(230)
Swaps	<u>3,764</u>	<u>(5,003)</u>	<u>(1,239)</u>
Subtotal	<u>4,156</u>	<u>(6,231)</u>	<u>(2,075)</u>
Counterparty credit risk adjustment	<u>(27)</u>	<u>-</u>	<u>(27)</u>
Total Adjusted	<u>\$ 4,129</u>	<u>\$ (6,231)</u>	<u>\$ (2,102)</u>

	Received	Delivered	Counterparty credit risk adjustment	2022
Asset	\$ 362,674	\$ (358,518)	\$ (27)	\$ 4,129
Liability	<u>(364,776)</u>	<u>358,545</u>	<u>-</u>	<u>(6,231)</u>
	<u>\$ (2,102)</u>	<u>\$ 27</u>	<u>\$ (27)</u>	<u>\$ (2,102)</u>

The transactions with DFIs carried out by the Institution for trading purposes mainly consist of: currency and interest rate swaps, packages, as well as TIIE futures, Bonds and Cetes, and forward contracts for interest rates, government securities and US Dollars.

During the fiscal year 2022, the Institution entered into transactions with DFIs, on its own behalf and traded with clients, through forward contracts, futures, swaps and options, which were transacted in accordance with the business strategy of the Institution's Treasury, this strategy mainly consisted of offering hedging to institutional and corporate clients, given the volatile conditions of world markets. On the other hand, the Institution did not require transacting DFIs other than those mentioned, since they were not part of the strategy established by the Institution.

The Institution receives cash collateral as collateral for some open FDI positions with certain counterparties (see Note 16) and as of this year securities (bonds) were also received as collateral (see note 21).

Total collateral received in cash as of December 31, 2022 is \$1,054; comprised of \$195 received in pesos and \$859 in dollars. The total collateral received as securities amounts to \$269 de pesos.

The total collateral granted in cash as of December 31, 2022 is \$5,263; made up of \$3,724 granted in pesos and \$1,539 in dollars, see note 10.

The terms and conditions of such collateral are:

Through the framework contract, a Master Guarantee Agreement is concluded in which for the Net Risk Exposure, the lender must guarantee the other party the amount necessary to cover the said risk. "Net Risk Exposure" is understood to be the amount that would be payable by the guarantee debtor on each valuation date, if any, to the creditor (expressed as a positive number) or that which the guarantee creditor must pay to the guarantee debtor (expressed as a negative number). All calculations are made using the designated valuation agent in terms of the contract itself.

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This latest agreement is concluded with a pledge agreement which provides that the eligible pledged assets will be released and the proprietary rights over the eligible assets will be delivered by the guarantee provider in accordance with the terms and conditions of the pledge agreement and the master guarantee agreement, provided that: i) there is no cause for early termination under the transactions, and ii) no early termination date is fixed.

Similarly, the parties agree that the eligible assets will generate, if effective, the previously agreed interest. The pledge stipulated in the said contract will remain in full effect until the guaranteed obligations have been fully complied with.

As of December 31, 2022 the composition of the DFI portfolio for trading purposes is presented as follows:

	<u>December 31</u> 2022
Assets	
DFI (Forward contracts receivable)	\$ 392
DFI (Swaps)	3,764
DFI (Packages)	<u>-</u>
Subtotal	<u>4,156</u>
Liabilities	
DFI (Forward contracts receivable)	\$ 999
DFI (Swaps)	5,002
DFI (Packages)	<u>230</u>
Subtotal	<u>6,231</u>
Counterparty credit risk adjustment	<u>(27)</u>
Net position	<u>\$ (2,102)</u>

Futures and forward contracts

Futures contracts transacted by the Institution through the MEXDER consider the margin calls determined by the clearing house of the said body.

As of December 31, 2022 the position held in Futures (open contracts) and forward contracts is shown as follows:

Currency forward contracts (US Dollars):

	<u>December 31, 2022</u>		
	<u>Buy</u>	<u>Sell</u>	<u>Net</u>
Market value	\$ (65,175)	\$ 71,589	\$ 6,414
Agreed price	<u>127,582</u>	<u>(134,603)</u>	<u>(7,021)</u>
Net asset (liability) position	<u>\$ 62,407</u>	<u>\$ (63,014)</u>	<u>\$ (606)</u>

DFI packages:

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As of December 31, 2022 the Institution had entered into DFI package contracts as follows:

Type of transaction	December 31, 2022		
	Type of underlying	Notional	Fair value
Purchases	Interest rate	\$ 1,744	\$ -
Sales	Interest rate	\$ 10,127	(230)
Net asset (liability) position			<u>\$ (230)</u>

Swaps

As of December 31, 2022 the Institution had entered into swap contracts for trading purposes as follows:

December 31, 2022						
Underlying	Currency	Notional asset	Notional liability	Receivable	Deliverable	Net position
Currency	MXN	\$ 50,473	\$ (50,602)	\$ 42,342	\$ (47,580)	\$ (5,238)
	USD	38,924	(39,493)	34,404	(27,819)	6,585
	UDI	10,185	(6,355)	10,131	(7,815)	2,316
	Euros	<u>5,318</u>	<u>(8,441)</u>	<u>5,766</u>	<u>(8,856)</u>	<u>(3,090)</u>
		<u>104,900</u>	<u>(104,891)</u>	<u>92,643</u>	<u>(92,070)</u>	<u>572</u>
Interest rate	(MXN)	981,526	(981,526)	200,966	(203,325)	(2,360)
Interest rate	(USD)	39,808	(39,808)	6,683	(6,134)	549
Interest rate	(EUR)	-	-	-	-	-
		<u>1,021,334</u>	<u>(1,021,334)</u>	<u>207,648</u>	<u>(209,459)</u>	<u>(1,811)</u>
		<u>\$ 1,126,235</u>	<u>\$ (1,126,226)</u>	<u>\$ 300,291</u>	<u>\$ (301,530)</u>	<u>\$ (1,239)</u>

The maximum exposure to credit risk as of December 31, 2022 is the fair value of the DFIs recognized in the assets of the Institution.

Nominal values (notional amounts) related to derivative financial instruments reflect the volume of activity but not the amounts at risk. Amounts at risk are usually limited to the unrealized profit or loss on the market valuation of those instruments, which may vary depending on the changes in the market value of the underlying assets, their volatility and the credit rating of the counterparties.

During the 2022 fiscal year, no transactions were entered into for hedging purposes.

The Institution does not have implicit derivatives to hedge risks or credit derivatives.

The terms and conditions that can significantly affect the amount and degree of certainty of future cash flows are exchange rate fluctuations of the Mexican Peso against rates volatility in the country and abroad. Recently the most important economies of the world have shown signs of volatility on these variables, thus open derivative positions can be subject to significant changes with respect to their present values at the date of issue of the financial statements. Regardless of these risk variables, the Institution follows strict policies to mitigate them and be able to handle them effectively, thus mitigating a major situation in terms of the results of the fiscal year and/or the risks that could arise in the future.

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The Institution prepares the sensitivity analysis of its DFIs based on the Value at Risk (VaR). See Note 24 on risk Management.

Note 9 - Loan portfolio:

Based on these tests carried out by the Institution's Management on each portfolio or loan, it was concluded that the business model(s) in which the loan portfolio is classified as of December 31, 2022 are integrated as shown below:

	December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total portfolio
Loan portfolio to collect principal and interest (CCPI)				
Commercial loans				
Business activity	\$ 25,449	\$ -	\$ -	\$ 25,449
Financial entities	2,005	-	-	2,005
Government entities	-	-	-	-
	\$ 27,454	\$ -	\$ -	\$ 27,454

	Principal	Accrued interest	Deferred income and transaction costs (*)	Total portfolio
National currency:				
Commercial loans				
Business activity	\$ 15,672	\$ 99	\$ (146)	\$ 15,625
Financial entities	1,831	8	-	1,839
Government entities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	17,503	107	(146)	17,464
Foreign currency :				
Commercial loan	-	-	-	-
Business activity	9,879	3	(58)	9,824
Financial entities	166	-	-	166
Government entities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>10,045</u>	<u>3</u>	<u>(58)</u>	<u>9,990</u>
Total loan portfolio to collect principal and interest	<u>\$ 27,548</u>	<u>\$ 110</u>	<u>\$ (204)</u>	<u>\$ 27,454</u>

The Institution did not make any reclassifications between the Credit Risk Stages as of December 31, 2022.

During the year ended December 31, 2022, there were no changes in the business model.

- (*) Likewise, during the year commissions were recognized for the granting of a line of credit for \$11 and the balance of other anticipated collections for granting a line of credit at the end of 2022 is \$15.

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The amount of credit commitments for Letters of Credit amounts to \$2,406.

The amount of Undrawn Lines amounted to \$37,911.

The loan portfolio includes contracts for credit facilities that have not been fully drawn down by \$37,911 that are recorded in memorandum accounts and of which \$37,401 correspond to revocable credit facilities and \$ 510 to irrevocable credit facilities.

Actualmente la cartera de crédito de BAMSA no contempla colateral en garantía.

The characteristics of the portfolio by economic sector of the Institution by activity of borrowers and by region as of December 31, 2022, are analyzed below :

Economic activity	2022	%
Food and drinks	\$ 6,047	22%
Telecommunications	5,758	21%
Auto parts	5,325	19%
Diversified Financial Services	3,548	13%
Manufacturing	2,481	9%
Mining and metals	1,892	7%
Energy	1,175	4%
Machinery	923	3%
Others	<u>305</u>	<u>1%</u>
Total	<u>\$ 27,454</u>	<u>100%</u>

The vast majority of negotiations are carried out with corporations based in Mexico City, Nuevo León and Yucatan with a smaller percentage pulverized in the rest of the Mexican Republic.

Region in which the business is managed	2022	%
Mexico City	\$ 12,234	44.2%
Nuevo León	6,065	22.1%
Yucatán	2,462	9.1%
Tamaulipas	1,887	7.2%
Hidalgo	1,501	5.4%
Jalisco	1,334	4.8%
Guanajuato	849	3.1%
Puebla	512	1.9%
Foreign	391	1.4%
Querétaro	197	0.7%
Sonora	18	0.1%
State of Mexico	<u>5</u>	<u>0.0%</u>
Total	<u>\$ 27,454</u>	<u>100%</u>

As of December 31, 2022, the Institution has a concentration with economic groups, understanding these as groups of individuals and legal entities that, due to their patrimonial ties or responsibilities, constitute common risks for a total amount of risk exposure of \$15,717 concentrated in 7 economic groups and that represen 52% of the total loan portfolio .

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Interest and commission income for the year ended December 31, 2022, according to the type of loan, is made up as follows:

	Interest	Comissions	Total
Commercial loans	\$1,716	\$25	\$1,741

The rating of the portfolio and the allowance for loan losses constituted are integrated as shown below :

Commercial portfolio (Standard methodology) as of December 31, 2022							
Risk	%	Amount	Provision	Activity	Financial entities	Government entities	Credit reserves
A-1	83.1%	\$ 22,802	0 to 0.90	\$ 105	\$ 3	\$ -	\$ 107
A-2	13.7%	\$ 3,752	0.901 to 1.5	\$ 41	\$ -	\$ -	\$ 41
B-1	0.3%	\$ 76	0.501 to 2.00	\$ 1	\$ -	\$ -	\$ 1
B-2	0.0%	\$ -	2.001 to 2.50	\$ -	\$ -	\$ -	\$ -
B-3	2.3%	\$ 638	2.501 to 5.00	\$ -	\$ 22	\$ -	\$ 22
C-1	0.0%	\$ -	5.001 to 10.00	\$ -	\$ -	\$ -	\$ -
C-2	0.0%	\$ -	10.001 to 15.50	\$ -	\$ -	\$ -	\$ -
D	0.7%	\$ 186	15.501 to 45.00	\$ -	\$ 30	\$ -	\$ 31
E	0.0%	\$ -	More than 45.50	\$ -	\$ -	\$ -	\$ -
Total	100%	\$ 27,454	Constituted provision	\$ 147	\$ 55	\$ -	\$ 202
For uncollected interest capitalized in restructuring							-
Additional reserves							-
Additional reserves required by the commission							-
Total preventive estimate of commercial portfolio credit risks							\$ 202

The behavior of the allowance coverage for credit risks is shown below:

The composition of the rated portfolio by type of credit, is integrated as shown below:

December 31, 2022				
Risk	Comercial	Financial activities	Government entities	Total
A-1	\$ 21,613	\$ 1,181	\$ -	\$ 22,794
A-2	\$ 3,760	\$ -	\$ -	\$ 3,760
B-1	\$ 76	\$ -	\$ -	\$ 76
B-2	\$ -	\$ -	\$ -	\$ -
B-3	\$ -	\$ 638	\$ -	\$ 638
C-1	\$ -	\$ -	\$ -	\$ -
C-2	\$ -	\$ -	\$ -	\$ -
D	\$ -	\$ 186	\$ -	\$ 186
E	\$ -	\$ -	\$ -	\$ -
Graded portfolio	\$ 25,449	\$ 2,005	\$ -	\$ 27,454
Excepted portfolio				\$ -
Total portfolio				\$ 27,454

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The composition of the allowance by type of credit is integrated as shown below:

Risk	December 31, 2022			Total
	Comercial	Financial activities	Government Entities	
A-1	\$ 105	\$ 2	\$ -	\$ 107
A-2	\$ 41	\$ -	\$ -	\$ 41
B-1	\$ 1	\$ -	\$ -	\$ 1
B-2	\$ -	\$ -	\$ -	\$ -
B-3	\$ -	\$ 22	\$ -	\$ 22
C-1	\$ -	\$ -	\$ -	\$ -
C-2	\$ -	\$ -	\$ -	\$ -
D	\$ -	\$ 30	\$ -	\$ 30
E	\$ -	\$ -	\$ -	\$ -
Graded portfolio	\$ 147	\$ 54	\$ -	\$ 202
Total allowance of credit losses of loan portfolio				\$ 202

As of December 31, 2022, the Institution has no credit defaults, therefore its entire portfolio is registered in Stage 1 credit.

As of December 31, 2022, the Institution does not have a credit portfolio in Stage 3.

During the year ending December 31, 2022, there were no movements in preventive estimates between credit stages, since the entire portfolio remained in Stage 1.

In accordance to the rules for rating the credit portfolio issued by the Commission, the Institution determined the preventive allowance for credit risks considering the payment capacity of the debtors and qualifying the risks of the commercial portfolio at the end of the year.

100% of the preventive estimates were made using the Standard methodology.

The movements of the preventive allowance for credit risks were as shown below:

	December 31, 2022			Total
	Comercial	Financial activities	Government entities	
Initial balance(1)	\$ 102	\$ 42	\$ -	\$ 144
Plus:				
Increases	\$ 45	\$ 13	\$ -	\$ 58
Less:				
Applications	\$ -	\$ -	\$ -	\$ -
Total of allowance for credit losses	\$ 147	\$ 55	\$ -	\$ 202

¹ The initial balance includes \$285 for the adoption of the accounting criteria effective as of January 1, 2022.

As of December 31, 2022, the Institution had no restructurings or renewals within its loan portfolio.

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During the year ended December 31, 2022, no interest derived from capitalizations for loan restructuring was recognized.

The Institution adjusted to the maximum financing limits established for the same person or group of persons representing a common risk. Likewise, there was no transaction entered into with clients considered as a person or group of persons representing one or more liability transactions by the Institution will exceed 100% of the basic capital.

As of December 31, 2022, the Institution has 7 financing granted that exceeds 10% of the basic capital, for an amount of \$15,717, said financing represents from 11% to 23% of said basic capital.

Additionally, the amount of the three largest debtors or groups of people that are considered the same, because they represent a common risk, amounts to \$8,231 in 2022.

Note 10 - Other accounts receivable - net:

As of December 31, 2022, other accounts receivable are comprised as follows:

	2022
Debtors from settlement of transactions	\$ 9,648
Debtors from collaterals granted in cash for DFI transactions	5,263
Taxes to recover	367
Other accounts receivable (1)	<u>232</u>
Total	<u>\$ 15,511</u>

¹ The balance of other accounts receivable is comprised as follows, which, due to their age of balances, did not allow for a bad debt reserve

Counterpart	Amount	Age in days (average)
Asigna (Compensation Chamber)	\$ 92	29
Banking operations in transit	75	6
Money Market operation (fail)	21	30
Bank of America National Association	19	21
Merrill Lynch México Brokerage house	16	1
Bank of America National Association Office Of Representation in Mexico.	7	1
Other national clients	<u>2</u>	21
	<u>\$ 232</u>	

As of December 31, 2022, there were no balances in the settlement accounts of investments in securities to which compensation is applied in accordance with Criterion A-3.

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Note 11 - Leases:

The Company, in its capacity as lessee, has a lease agreement with Administradora Fibra Danhos, regarding the property located on the 22nd floor of Pedregal Street #24, better known as "Torre Virreyes", with the following characteristics:

The Virreyes building is located in the new central business district of Mexico City and is a LEED Platinum certified building. Therefore, the quality of the asset and its location are adequate; with a duration of the contract of 120 forced months counted from the date of January 1, 2017, currently being the sixth lease period at the end of the year 2022, with the possibility of extension for 2 additional periods of 60 months. The new value will be negotiated according to the market values practiced in similar buildings in the region.

According to the contract, on the anniversary of the start date of rent payment, the percentage of the percentage increase is according to the "Consumer Price Index (all cities-all urban consumers)", that is, the consumer price index for all average urban consumers in cities in the United States of America.

During the fifth year of the term, the lessee may reduce the useful area of the leased space by up to 20%, as long as he requests the lessor in writing at least 6 (six) months before the reduction, obliging the lessees to pay the lessor the amounts for commission that were paid by the lessor to real estate brokers.

In the event of termination of the contract for reasons attributable to the lessees, they must pay as a conventional penalty for non-compliance, an amount equivalent to 100% of the current monthly rent, multiplied by the number of months remaining to reach the end of term of the term of this contract, payable in a single installment, within 15 days following the date on which the lessees are notified of the termination of this contract.

Space adaptation works are the responsibility of the lessee, who must return the leased area to its original conditions. The landlord will not be obliged to reimburse the tenant for the amounts spent on the adaptation of the spaces.

The right-of-use asset depreciation charge is shown below:

	Year ended December 31, 2022
Offices	\$ 29
	<u>\$ 29</u>

The main items recognized in the financial statements related to leases are included below:

Interest expense on lease liabilities	\$ 4
Sublet income	\$ -
Total cash outflows from leases	<u>\$ 4</u>

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As of December 31, 2022, the amount of the right-of-use assets is integrated as shown below:

	December 31 2022
Offices	\$ 124
Depreciation	<u>(29)</u>
Right-of-use asset	<u>\$ 95</u>

As of December 31, 2022, the amount of the lease liability is integrated as shown below:

	31 de diciembre de 2022
Lease	\$ 124
Amortization	<u>(29)</u>
Interest	<u>(4)</u>
Lease liability	<u>\$ 91</u>

Note 12 – Analysis of properties, plant and equipment:

As of December 31, 2021 and 2020, the property, furniture and equipment are comprised as follows:

	<u>December 31, 2022</u>	Useful life (years)
Intended for offices:		
Buildings and land	\$ 162	20
Office equipment	36	10
Computer equipment	190	3
Transportation equipment	<u>-</u>	4
	388	
Less – Accumulated depreciation	<u>(318)</u>	
Total	<u>\$ 70</u>	

Depreciation and amortization recorded in the income of 2022 amounts to \$49, which is recognized under the "Administrative expenses" line item.

As of December 31, 2022 there are fully depreciated assets of \$218, corresponding to Adaptations and improvements, servers – data equipment and computer equipment. In 2022, investments in fixed assets were made for \$23.

The method used by the Institution to calculate depreciation is the "straight-line" method.

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Note 13 – Deposits:

As of December 31, 2022, traditional fundraising by currency type is comprised as follows:

	December 31, 2022		
	National currency	Foreign currency valued (USD)	Total
<u>Immediate demand deposits</u>			
Non-interest bearing	\$ 12,621	\$ 4,320	\$ 16,941
Interest bearing	<u>17,380</u>	<u>68</u>	<u>17,448</u>
	30,001	4,388	34,389
<u>Time deposits</u>			
Of the general public	626	-	626
Money Market	<u>6,878</u>	<u>1,951</u>	<u>8,829</u>
Total	<u>\$ 37,504</u>	<u>\$ 6,339</u>	<u>\$ 43,844</u>

	December 31, 2022		
	National currency	Foreign currency valued (USD)	Total
Non-interest bearing demand deposits	\$ 12,621	\$ 4,320	\$ 16,940
Interest bearing demand deposits	<u>17,380</u>	<u>68</u>	<u>17,448</u>
	<u>\$ 30,001</u>	<u>\$ 4,388</u>	<u>\$ 34,389</u>

Immediate payable deposits are made up as follows:

	Cost plus accrued interest December 31 2022	Maturity date 2022	Interest rate (%) 2022
National currency:			
Interest bearing	<u>\$ 17,380</u>	1 day	<u>5.92</u>
Valued foreign currency:			
Interest bearing	<u>\$ 68</u>	1 day	<u>4.27</u>

Time deposits in national currency are comprised as follows:

	Cost plus accrued interest December 31 2022	Maturity date 2022	Interest rate (%) 2022
Over-the-counter premissory Notes with interest payable at Maturity issued by the Institution	<u>\$ 626</u>	3 days	<u>10.00</u>

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Time deposits in the money market are comprised as follows:

Bank	2022	Maturity	Term	Interest rate
Pesos:				
Bank of America National Association	304	February 2023	Short	10.23%
Bank of America National Association	952	June 2023	Short	7.35%
Bank of America National Association	85	January 2024	Long	4.61%
Bank of America National Association	1,951	March 2026	Long	4.30%
Bank of America National Association	100	July 2023	Short	5.30%
Bank of America National Association	373	September 2024	Long	6.34%
Bank of America National Association	373	March 2025	Long	6.45%
Bank of America National Association	373	September 2025	Long	6.53%
Bank of America National Association	373	March 2026	Long	6.60%
Bank of America National Association	601	December 2023	Short	7.77%
Bank of America National Association	3,021	March 2027	Long	10.32%
Bank of America National Association	<u>322</u>	January 2024	Long	8.00%
Total	<u>8,829</u>			

Such deposits are contracted with a related party that is a foreign financial institution. This type of deposit does not have a specific guarantee.

As of December 31, 2022, the certificates of deposit and promissory notes with yield payable at maturity had the following terms to maturity:

Concept	From 1 to 179 days	From 6 to 12 months	More than 1 to 2 years	More than 2 years	Contract value
Deposit certificates	\$	\$	\$	\$	\$
Promissory notes	<u>\$ 626</u>	<u> </u>	<u> </u>	<u> </u>	<u>\$ 626</u>
Total	<u>\$ 626</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 626</u>

Note 14 – Collaterals sold or pledged:

The position of collateral to be received and securities to be delivered for securities lending operations as of December 31, 2022 is as follows:

	2022	
	Value Securities	Fair
Trading securities		
Securities granted as collateral:		
Bonos	76,536,218	\$ 6,971
Udibonos	1,026,567	835
Cetes	<u>286,899,900</u>	<u>2,692</u>
	<u>364,462,685</u>	<u>\$ 10,499</u>

Control of the received collateral (securities subject to the loan), as well as the sale of thereof, is done through memorandum accounts under the “Collateral received by the entity” and “Collateral received and sold” or delivered in guarantee line item as of December 31, 2022 amounted to \$10,499.

The maturity dates of the loan transactions established with Banxico as of December 31, 2022, were January 2, 2023.

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As of December 31, 2022, there are no amounts payable for proprietary rights.

When the Institution acts as the borrower, the amount of accrued premiums charged, which were recognized in income, amounted to \$20 in the year ended 2022, these are recorded under the "Premiums charged on securities lending transactions" line item in the income statement.

The average term for securities lending transactions conducted by the Institution as the lender and borrower was one day in 2022.

The nature, conditions, terms and restrictions of these transactions are:

- The securities loan is transacted with Banxico as the borrower.
- This transaction type generally has a term of either one day or three days if agreed on a Friday.
- The cost to the borrower is equivalent to the bank funding rate.

The borrower must provide guarantees to the lender equal to the market value of the securities that are the subject of the loan.

- Securities granted as collateral must be government securities, except for those indexed to the UDI; additionally, there is an option to guarantee with Brems issued by Banxico.
- Guaranteeing with securities that mature in two days is prohibited.

Note 15 – Interbank loans and loans from other entities:

As of December 31, 2022, there were no agreed interbank loans and interbank promissory notes. In relation to the lines of credit received by the Institution, the unused amount thereof is shown below:

	2022
Bank of America, N. A. *	<u>Dls.200,000,000</u>

The credit conditions are mentioned below:
Credit Type: General, Revolving, Unrestricted.
Principal due date: August 01, 2023
Short term. Automatic renewal

Note 16 – Other accounts payable:

As of December 31, 2022, the balance of this item is integrated as shown below:

	2022
Creditors for liquidation of operations	\$ 13,229
Creditor for margin accounts	1,185
Creditors for collaterals received in cash	1,054
Payable contributions	33
Sundry creditors and other accounts payable	<u>6,202</u>
Total	<u>\$ 21,704</u>

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The detail of the item Other sundry creditors and other accounts payable is presented below:

	2022
Collaterals received in cash for FDI operations	\$ -
Acceptances on behalf of clients	43
Other benefits to employees	-
Cashier checks and certificates	35
Payable taxes	
Other obligations*	<u>6,125</u>
Total	<u>\$ 6,202</u>

Below is the analysis of movements in "Other Obligations":

Type of provision	Balance at January 1, 2022	Increases	Applications	Cancelations	Balance at December 2022
Short term:					
Other provisions	\$ 144	\$ (1)	\$ -	\$ -	\$ 143
Other diverse creditors	25	2,141	25		2,141
Granting commissions					
Credit initial	19		19		-
Acceptances in behalf of clients	-	43			43
Cashier Checks	-	35			35
Other liabilities derived from providing banking services	-				
	<u>3,796</u>	<u>3,840</u>	<u>3,796</u>		<u>3,840</u>
Total	<u>\$ 3,984</u>	<u>\$ 6,058</u>	<u>\$ 3,840</u>	<u>\$ -</u>	<u>\$ 6,202</u>

* The item of other obligations is mainly made up of TEF operations to be settled the next day instructed by customers and in turn the overdraft of a bank account in foreign currency.

The analysis of movements in other employee benefits is presented below:

Type of provision	Balance at January 1, 2022	Increases	Applications	Cancelations	Balance at December 2022
Short term:					
Bonds	\$ 110	\$ 103	\$ 110	\$ -	\$ 103

In the case of the Bonds, due to the Institution's internal policy, the date of withdrawal of resources for the Bonds was February 14, 2023 due to the provision created in 2022.

Note 17 – Employee benefits:

- The value of the defined benefit obligations (OBD by its Spanish acronym) at December 31, 2022 amounted \$162.
- The value of the Defined Benefit Plan Assets as of December 31, 2022 amounts \$3
- The value of the Defined Contribution Plan Assets as of December 31, 2022 amounted \$104.
- Due to the above, the Institution presents as of December 31, 2022 the Net Liability for Defined Benefits (PNDB) is \$159 in the statement of financial position.

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The following shows the financial situation between the present value of the OBD and the fair value of the AP, and the PNBD recognized in the statement of financial position as of December 31, 2022:

	Indemnities	Pensions	Other post-employment benefits	Totals
Obtained benefits:				
OBD	\$ 79	\$ 78	\$ 5	\$ 162
Fair value of the AP	_____	_____(3)	_____	_____(3)
PNBD	<u>\$ 79</u>	<u>\$ 75</u>	<u>\$ 5</u>	<u>\$ 159</u>

- d. Reconciliation of the OBD, AP and the Net Asset/Liability for Defined Benefits (PNBD) as of December 31, 2022.

Reconciliation of the beginning and ending balances of the OBD

	Indemnities	Pensions	Other post-employment benefits	Total
OBD at the beginning of period:	\$ 75	\$ 78	\$ 4	\$ 157
Present service cost	11	8	1	20
Cost for past services for				
Transfer of personnel	-	-	-	-
Payments during the year	(10)	(9)	-	(20)
Cost of OBD interest	6	6	1	13
Actuarial Gain/Losses	_____(3)	_____(5)	_____	_____(8)
OBD at period-end	<u>\$ 79</u>	<u>\$ 78</u>	<u>\$ 5</u>	<u>\$ 162</u>

Reconciliation of the beginning and ending balances of the AP as of December 31, 2022:

	Initial balance	Return on plan assets	Company contributions	Transfer of assets for transfer or personnel	Payments made from plan assets	Final balance
Plan assets	<u>\$ 110</u>	<u>\$ (11)</u>	<u>\$ 18</u>	<u>\$ 2</u>	<u>\$ (16)</u>	<u>\$ 104</u>

The resources belonging to the Pension Plan of Bank of America employees are invested in the Black Rock Life Cycle (LCF) strategy, which establishes 5 baskets with an investment profile and risk level according to age and retirement date of each employee. This in order to eliminate the responsibility of managing the investment profile to the collaborators. The LCFs are designed so that the portfolio matures together with the employee, with the highest risk being the Life Cycles furthest from retirement age and the least risky those closest to retirement age.

Reconciliation of the initial and final balances of the PNBD as of December 31, 2022:

	Indemnities	Pensions	Other post-employment benefits	Total
PNBD at the beginning of period:	\$ 76	\$ 66	\$ 5	\$ 147
Net cost of period				
Recognized in net period income	15	13	1	29
Recognized recommendations in OCI	(2)	(4)	-	(6)
Benefits paid out of charge to liabilities	_____(10)	_____	_____	_____(10)
	<u>\$ 79</u>	<u>\$ 74</u>	<u>\$ 6</u>	<u>\$ 159</u>

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e. Net period cost (NPC)

	Indemities December 31, 2022	Pensions December 31, 2022	Other post-employment benefits December 31, 2022	Total
Cost of current service	\$ 11	\$ 8	\$ 1	\$ 20
Net interest over PNBD	6	6	-	12
Gains and losses	(2)	(1)	-	(3)
CNP recognized in net Gain or loss	<u>\$ 15</u>	<u>\$ 13</u>	<u>\$ 1</u>	<u>\$ 29</u>

f. Reconciliation of recognized remeasurements in OCI

	Indemities	Pensions	Other post-employment benefits	Total
Initial OCI balance	\$ 17	\$ 5	\$ 1	\$ 22
OCI recycling in result	(2)			(2)
Actuarial profit (losses)	3	5	-	9
Actuarial Profit (losses) in obligations (GPAO)	-	-	-	-
Actuarial profit (losses) in Return of AP (GPRA)				
Recognized in equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Final OCI balance	<u>\$ 18</u>	<u>\$ 10</u>	<u>\$ 1</u>	<u>\$ (29)</u>

Main actuarial hypotheses

The main actuarial assumptions used, expressed in absolute terms, as well as the discount rates, AP yields, salary increases and changes in the indices or other variables, referring to December 31, 2022, are shown below:

	2022 % (nominal rate)
Performance of AP	8.10
Discount of obligations for projected benefits To their present value	8.10
Salaries' increase	5.31

Items pending amortization are applied to results based on the remaining average working life of workers expected to receive benefits, which is five years.

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Note 18 – Analysis of balances and transactions with related parties:

The main balances with related parties as of December, 31 are shown as follows:

	December 31, 2022
Debit balances	
Cash and cash equivalents (Note 5)	\$ 1,426
DFI (swaps)	58,447
Currency forward contracts	83,782
Accounts receivable (Note 10)	<u>6,042</u>
	<u>\$ 149,697</u>
Credit balances	
Demand deposits	\$ 3,392
Term deposits	9,441
Interbank loan	-
DFI (swaps)	58,142
Currency forward contracts	62,734
Currencies to deliver	11
Accounts payable (overdraft)	<u>2,119</u>
	<u>\$ 135,839</u>

The concept of overdraft refers mainly to that of a bank account in foreign currency mainly with Bank of America National Association.

The results with related parties are summarized below:

	Year ended December 31, 2022
(Loss) profit on DFI	\$ (570)
Interest earned	10
Service income	189
Interest paid	(640)
Services expenses	<u>(29)</u>
Total amount (net) from transactions with related parties	<u>\$ (1,040)</u>

As of December 31, 2022, the Institution does not have any items considered irrecoverable or difficult to collect from transactions with related parties.

As of December 31, 2022, cash and cash equivalent instruments are basically inter-company with Bank of America Canada, BANA London and BANA Zurich.

As of December 31, 2022, the IFD swap operations (debit and credit balances) are mostly agreed with Bank of America N.A.

The foreign exchange operations for 2022 are agreed with Bank of America, N. A.

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Over the counter time deposits were received from MLMex for 2022.

The results from IFD trading is given mainly with Bank of America, N.A.

Income from services corresponds to customer referencing, administrative services and data processing with Bank of America, N.A., as well as other entities related to smaller amounts.

Interest paid is mainly for interbank loans with Bank of America, N.A. and overnight deposit interest with MLMex.

Expenses for services correspond to the use of the network, administrative services and market analysis with Bank of America, N.A. and administrative services with Administradora BA, S. A. de C. V. and Administradora MEL, S. A. de C. V. and Merrill Lynch Mexico.

As of December 31, 2022, the Institution has entered into the following contracts with related parties:

- a. Contracts for the provision of specialized services with Merill Lynch Mexico, S. A. de C.V. and Bank of America N.A. Representative Office, with indefinite duration and automatic renewals.
- b. FDI operations were carried out under the applicable framework agreements (ISDA)

Note 19 – Stockholders' Equity:

As of December 31, 2022, the Institution did not distribute dividends or make capital reimbursements.

Minimum capital

The minimum subscribed and paid capital of the Institution is the equivalent in national currency to the value of ninety million UDI. The amount of the minimum capital that the Institution must have must be subscribed and paid. When the share capital exceeds the minimum, at least 50% must be paid in, provided that this percentage is not less than the established minimum.

To meet the minimum capital, the Institution may consider the net equity they have in accordance with the provisions of article 50 of the Law. The net equity at no time may be less than the minimum capital.

As of December 31, 2022, the Institution's capital stock is represented by common registered shares, with a par value of \$1.00 each, fully subscribed and paid, and is comprised as follows:

Description	December 31, 2022	
	Number of shares	Amount
Series "F" shares	4,277,787,684	\$ 4,278
Serie "B" shares	<u>175,458,372</u>	<u>175</u>
Historically paid Share capital	4,453,246,056	<u>\$ 4,453</u>
Accumulated increase due to restatement As of December 31, 2007		<u>817</u>
Sahre capital		<u>\$ 5,270</u>

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Series “F” shares will represent at least 51% of the share capital and may only be sold with the prior authorization of the SHCP.

Series “F” shares may only be acquired by a subsidiary holding company or, directly or indirectly, by a foreign Bank or financial institution, except in the event of being referred to in the Law, in which case they are representative of the share capital of full-service bank subsidiaries.

In accordance with the Law, Series “B” shares are freely subscribed and are governed by the provisions of the Law for Series “O” shares.

The shares are of equal value within each series and confer the same rights on their holders, and are paid in full at the time of subscription.

Restrictions on equity:

In accordance with the Law, foreign legal entities exercising authority functions may not participate in any way in the share capital of full-service banks. The Institution must constitute a legal reserve fund, separating 10% of its net profits annually until reaching an amount equivalent to the paid-in capital.

Dividends:

Dividends to be paid will be free from income tax if they come from Net Tax Profit Account (CUFIN, by its Spanish acronym). Any dividends paid in excess of CUFIN and reinvested CUFIN (CUFINRE) will cause a tax equivalent to 42.86%. The current tax is payable by the Company and may be credited against its current income tax of the year or the year on which it is paid. The remaining amount may be credited in the following two fiscal years against the tax of the year or against the provisional payments. Dividends paid coming from profit previously taxed by income tax will not be subject to tax withholding or additional tax payment. Income tax law sets the obligation of keeping CUFIN with profit generated up to December 31, 2013, and starting another CUFIN with profit generated from January 1, 2014.

Capitalization

a. Net equity

The Institution maintains a net equity regarding the market, credit and operational risks incurred in its operation, and which is not less than the sum of the equity requirements for said types of risk, in terms of the applicable Provisions.

As of December 31, 2022, the Institution determined a Capitalization Ratio of 21.15%, which results from dividing the net equity among its assets at credit, market and operational risk. .

The relevant items of said Capitalization Index are detailed below:

	December 31, 2022
Assets at credit risk	\$ 35,834
Assets at market risk	26,733
Assets at operating risk	4,457
Total assets at risk	<u>\$ 67,024</u>

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Net equity	\$ <u>14,176</u>
Index on assets subject to credit risk	39.56%
Index on assets subject to credit risk total	21.15%

The Institution's net equity requirement for its exposure to credit risk must have a minimum capitalization ratio of 8%, which is the result of multiplying the weighted assets for which the standard method has been used.

The net equity is determined as noted by the Commission, as follows:

	December 31, 2022
Composition of basic capital	
Stockholders' equity	\$ 14,176
Inversiones en acciones, intangibles e impuestos diferidos	-
Basic stock	\$ <u>14,176</u>
Supplemental stock	\$ -
Net equity	\$ <u>14,176</u>

Market risk

The capital required for the position of assets at market risk as of December 31, 2022, is as follows:

	December 31, 2022	
Concept	Amount of equivalent positions	Capital requirement
Transactions in Mexican Pesos with a nominal interest rate	\$ 16,653	\$ 1,332
Transactions in Mexican Pesos with real rates or denominated in UDIs	5,938	475
Positions in UDIs or with performance referred to NPC	48	4
Nominal rate transactions In foreign currency	1,966	157
Positions in foreign currencies or with exchange rate-, gamma- and vega-indexed returns	<u>2,128</u>	<u>170</u>
Capital requirement for market risk	\$ <u>26,733</u>	\$ <u>2,139</u>

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b. Credit risk

Weighted assets subject to credit risk are broken down as follows:

Concept	December 31, 2022	
	Weighted assets by risk	Capital requirement
For derivatives and repurchase agreements	\$ 2,307	\$ 185
For credit transactions	26,581	2,022
For granted guarantees and credit lines	1,980	263
For permanent investments and other assets	1,102	85
For transactions with related persons	908	72
Adjustment for derivative transactions valuations	<u>2,956</u>	<u>237</u>
Credit risk capital requirement	<u>\$ 35,834</u>	<u>\$ 2,864</u>
Operational risk capital requirement (see subparagraph d)	<u>\$ 4,457</u>	<u>\$ 357</u>

c. Operating risk

To calculate the capital requirement for its exposure to operating risk, the Institution uses the Basic Indicator Method. Under this Method, the Institution must cover the operational risk with a minimum capital equivalent to 15% of the average of the last three years of its positive annual net income.

Net income will be the result of adding net income from interest plus other net income other than interest. Said income does not include the following items: a) realized gains or losses from the sale of held-to-maturity securities; b) realized gains or losses from the sale of available-for-sale securities, and c) income from exceptional items.

The capital requirement for operating risk may not be less than 5% of the average of the last 36 months of the sum of the capital requirements for credit and market risk, nor more than 15 percent of said average. Assets subject to operational risk are determined by multiplying the capital requirement for said concept by 12.5.

The capital required for the position of assets at operating risk as of December 31, 2022, is \$357.

d. Additional capitalization requirements

The Institution has no additional capitalization requirements.

e. Equity sufficiency assessment

The continuous assessment of the equity sufficiency, of the changes in its structure and the impact on its position is carried out through a process based on capitalization rules issued by the SHCP, which basically consider the following.

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Ratings

As of December 31, 2022, the Institution obtained ratings from the following rating agencies as follows:

	2022				
	Fitch Ratings		Standard & Poors		
	Short-term	Long-term	Short-term	Long-term	Outlook
National scale	F1+(mex)	AAA(mex)	mxA-1+	mxAAA	Stable

Note 20 – Incurred and deferred income tax:

- In 2021, the Institution determined a tax profit of \$2,234. The tax result differs from the accounting result, mainly due to those items that are accumulated and deducted differently over time for accounting and tax purposes, due to the recognition of the effects of inflation for tax purposes, as well as those items that only affect the accounting or fiscal result.
- The LISR establishes that the applicable income tax rate for fiscal year 2022 is 30%.
- The income tax provision is shown as follows:

	December 31, 2022
Income tax	\$ (278)
Deferred Income tax	(330)
Total income tax according to statement of comprehensive income	<u>\$ (608)</u>

- The reconciliation of the statutory and effective income tax rates is shown as follows:

Concept	December 31, 2022
Profit before income tax	\$ 2,952
Statutory income tax rate	<u>30%</u>
Income tax at statutory rate	886
Plus (less) the tax effect of the following permanent items:	
Non-deductible expenses	58
Non-taxable income	(50)
Non-deductible expenses	10
Deferred Employee Profit Sharing	4
Annual adjustment for inflation	<u>(300)</u>
Income tax at the real rate	<u>\$ 608</u>
Effective income tax rate	<u>20.59%</u>

The difference between the effective rates for 2022 is explained by the increase in non-deductible expenses for tax purposes.

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- v. The temporary differences for which deferred ISR is recognized are integrated as follows:

Concept	<u>December 31,</u> 2022
Fixed assets	\$ (147)
Prepayments	(218)
Personnel remunerations (bonuses) payable and employee benefits	(96)
Allowance for credit losses	(202)
Pension plan	(162)
Non-deductible/cumulative effect upfront fee paid/collected	1,839
Tax valuation of DFI from previous years to expire	(1,195)
Market valuation of DFI	(1,993)
Other temporary differences	84
	<u>(2,090)</u>
Tax rate	30%
Deferred income tax	<u>\$ 627</u>

As of December 31, 2022, the Institution applied all of its updated tax losses pending amortization of \$1,307 against the fiscal profit for the year.

2016 Year review

On December 8, 2020, the Institution was notified of the Administrative Act No. 900-02-00-00-00-2020-80851 issued by the Administration of Large Taxpayers of the SAT and through which reports, data and documents are requested related to the Transactions entered into with Related Parties during fiscal year 2016, which is in the process of attending to the closing date of this fiscal year.

On October 21, 2022, the Authorities announced the facts and omissions determined from the review carried out on the Taxpayer, for the corresponding fiscal year from January 1, 2016 to December 31, 2016.

On November 7, the procedure for the adoption of a conclusive agreement regarding the verification powers exercised to the Institution began, for the period from January 1 to December 31, 2016.

As of today, we are awaiting notification from the Authority to begin the process of verification of facts and observations.

2018 Year review

By means of a document submitted electronically on July 2, 2021, being considered filed before the H. Taxpayer Defense Attorney's Office on July 5, 2021, the adoption of a Conclusive Agreement of the facts or omissions consigned in the official letter of observations number 900-02-05-00-00-2021-1214 of June 8, 2021.

After several negotiation tables with the Tax Authority, on November 22, 2022, the Conclusive Agreement was signed between the Legal Representative of the Institution, the Taxpayer Defense Attorney's Office and the Financial Sector Inspection Administrator 4 concluding the review carried out. The end result was not material.

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Incurred and deferred Employees' Statutory Profit Sharing (ESPS)

The Company is subject to the payment of ESPS, which is calculated by applying the procedures established in article 9 of the LISR, in which the taxable income for ISR purposes is considered as the tax base, without reducing the ESPS paid for the year, nor the tax losses applied. Additionally, the part not deducted from the exempt social security referred to in section XXX of article 28 of the LISR must be reduced from the accruable income.

In 2022, the Company determined an accrued PTU of \$93. The PTU taxable base differs from the accounting result mainly due to the differences in the time in which some items are accumulated or deducted from accounting and for effects of PTU caused, as well as those items that only affect the accounting result or PTU caused for the year.

	<u>December 31,</u> <u>2022</u>
Incurred ESPS	\$ 93
Deferred ESPS	<u>13</u>
Total	<u>\$ 106</u>

Derived from the Decree of April 23, 2021 that regulates labor subcontracting, during the year, the Institution decided to consider as deferred PTU the amount of the limitation of 3 months of salary calculated based on the provisions of the Federal Labor Law, which amounts to \$88.

Contingency

In accordance with current laws, the Institution must apply the tax provisions to which it is subject and the authority has the power to review operations, calculations and/or treatments, among others, followed by the Administration of the Institution to comply with said provisions. prosecutors. In the event that the tax authorities review the Institution and consider that the amounts, operations and/or treatments, among others, deviate from the assumptions provided for in the Laws, they could require, in addition to the collection of the corresponding tax and accessories (updating and surcharges) fines on omitted contributions, which could be up to 100% of their amount.

Note 21 – Memorandum accounts:

As of December 31, 2022, the Institution does not have transactions that have given rise to guarantees.

a. Contingent assets and liabilities

As of December 31, 2022, the Institution does not have contingent assets nor liabilities.

b. Loan commitments

As of December 31, 2022, the Institution has credit commitments for \$40,319, which include unexercised letters of credit, undrawn lines granted, including overdraft lines in checking accounts.

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c. Trust assets

The trust activity recorded in this line item was analyzed as at December 31, 2022, as follows:

	<u>December 31,</u> 2022
Trusts:	
Guarantee	\$ <u>1</u>
	\$ <u>1</u>

As of December 31, 2022, no trust income was received.

d. Collateral received

The Collateral received by the entity under repurchase agreement transactions in margin accounts line item is detailed below:

	<u>December 31,</u> 2022	Market
	Titles	Value
Repurchase agreements (Cetes, Bonds and Udibono)	251,130,429	\$ 25,002
Securities lending (Cetes, Bonds and Udibono)	394,353,983	\$ 11,018
Collateral received as collateral for DFI operations (Bonds)	<u>2,743,103</u>	<u>\$ 269</u>
	<u>648,227,515</u>	<u>\$ 36,289</u>

The Collateral received and sold by the entity line item includes repurchase agreements and securities loans transactions, as detailed below:

	<u>December 31,</u> 2022 Market value
Securities lending (Cetes, Bonds and Udibonos)	<u>\$ 15,351</u>

e. Assets in custody or under management

As of December 31, 2022, the Institution has no assets in custody or under Management in SD Indeval.

f. Transactions on behalf of third parties

Resources managed and/or in custody in accordance with customers' instructions to invest in various instruments of the Mexican financial system are recorded under this line item. As at December 31, 2022, the Institution has no transactions on behalf of third parties.

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Note 22 – Segment reporting:

Presented below are the assets and liabilities by segment of the Institution:

State of Financial Position

	December 31, 2022		
	Treasury and Investment banking	Credit	Total
Activos			
Cash and cash equivalents	\$ 10,538	\$ -	\$ 10,538
Margin accounts	1,464		1,464
Investments in securities	17,016		17,016
Debtors from repurchase agreements	25,000		25,000
Transactions with securities and derivatives	4,129		4,129
Loan portfolio		27,454	27,454
Allowance for credit losses		(202)	(202)
Other accounts receivable	15,433	78	15,511
Property, furniture and equipment	47	23	70
Deferred income taxes	627		627
Other assets	139	69	208
	<u>\$ 74,393</u>	<u>\$ 27,422</u>	<u>\$ 101,815</u>

	December 31, 2022		
	Treasury and Investment banking	Credit	Total
Liabilities			
Demand deposits	\$ 34,389	\$ -	\$ 34,389
Term deposits	9,455		9,455
Creditors from repurchase agreements	4,527		4,527
Collaterals sold or given in guarantee	10,499		10,499
DFI	6,231		6,231
Leases	61	30	91
Employees benefits	300	150	450
Income taxes	185	93	278
Deferred credits and early collections	-	15	15
Sundry creditors and other accounts payable	21,602	101	21,703
	<u>\$ 87,249</u>	<u>\$ 389</u>	<u>\$ 87,639</u>

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	December 31, 2022			
	Treasury and Inv. Banking	Credit	Fundraising	Total
Interest income	\$ 7,954	\$ 1,716	\$ -	\$ 9,670
Interest expense	<u>(6,549)</u>	<u>-</u>	<u>(412)</u>	<u>(6,961)</u>
Financial margin	1,405	1,716	(412)	2,709
Allowance for credit losses	<u>-</u>	<u>227</u>	<u>-</u>	<u>227</u>
Financial margin adjusted for credit risk	<u>1,405</u>	<u>1,943</u>	<u>(412)</u>	<u>2,936</u>
Commissions and fees charged	-	26	130	156
Commissions and fees paid	(60)	-	-	(60)
Trading income (loss)	1,294	-	-	1,294
Other operating income (expenses)	(91)	-	-	(91)
Administrative and promotional expenses	<u>(469)</u>	<u>(346)</u>	<u>(468)</u>	<u>(1,284)</u>
	<u>674</u>	<u>(320)</u>	<u>(338)</u>	<u>15</u>
Income before tax on profits	<u>2,079</u>	<u>1,623</u>	<u>(750)</u>	<u>2,952</u>
Income Taxes	<u>(270)</u>	<u>(68)</u>	<u>(270)</u>	<u>(608)</u>
Net income	<u>\$ 1,809</u>	<u>\$ 1,555</u>	<u>\$ (1,020)</u>	<u>\$ 2,344</u>

Note 23 – Additional information on the Income Statement:

a. Interest income:

Interest income for the years ended December 31, 2022, is made up as follows:

Concept	National currency	Foreign currency	Total
Interest on cash and cash equivalents	\$ 392	\$ -	\$ 392
Interest and positive returns from investments in securities, trading securities	187	1	187
Interest and returns in favor From collaterals in operations OTC	232	23	255
Interest and positive returns from repurchase agreement transactions	1,757	-	1,757
Interest and returns in favor From margin accounts	13	-	13
Stage 1 credit portfolio interest Business or commercial activity	1,356	258	1,614
Stage 1 credit portfolio interest From Financial entities	102	-	102
Commissions from credit granting	6	4	11
Profit in exchanges for valuation	<u>435</u>	<u>4,905</u>	<u>5,340</u>
Total of interest income	<u>\$ 4,479</u>	<u>\$ 5,191</u>	<u>\$ 9,670</u>

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Included in interest income is \$5,191 in foreign currency.

b. Interest expense

Interest expenses for the years ended December 31, 2022, are made up as follows:

Concepto	National currency	Foreign currency	Total
Interest for demand deposits	\$ 835	\$ -	\$ 835
Interest for time deposits	564	31	595
Interest and negative returns for repurchase agreement transactions	102	-	102
Premiums in charge of operations			
Securities lending	20	-	20
Interest on interbank lending			
And from other entities	11	-	11
Interest and income charged From collaterals in			
OTC operations	27	10	37
Interest on lease liabilities		4	4
Loss in changes due to valuation	<u>91</u>	<u>5,267</u>	<u>5,357</u>
Total interest expense	<u>\$ 1,649</u>	<u>\$ 5,312</u>	<u>\$ 6,961</u>

I Included in interest expense is \$5,312 in foreign currency.

c. Charged fees

The composition of fees charged in 2021 is as follows:

Concept	National currency	Foreign currency	Total
Funds transfer	\$ -	\$ 84	\$ 84
Credit letters	-	22	22
Account management	2	32	34
Acceptances on behalf of third parties	-	1	1
Credit transactions	12	2	14
Other fees charged	-	1	1
Total Fees charged	<u>\$ 14</u>	<u>\$ 142</u>	<u>\$ 156</u>

During the year ended December 31, 2022, the commissions for the granting of credit recognized in results amounts to \$11 with a weighted average term for its amortization during the year 2023.

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d. Trading income (loss)

By 2022, the intermediation result generated a profit (loss) of \$1,294. The items that influence the determination of said result are shown below:

Concept	National currency	Foreign currency	Total
Result from valuation at fair value of:			
Trading securities	\$ 103	\$ -	\$ 103
Derivatives for trading purposes	<u>(1,241)</u>	<u>2,194</u>	<u>953</u>
Total	(1,138)	2,194	1,056
Result for the sale of securities	318	(4)	314
Derivatives for trading purposes	(1,802)	1,349	(453)
Foreign currency valuation result	(357)	129	(229)
Result from foreign exchange trading	<u>7,604</u>	<u>(6,998)</u>	<u>605</u>
Total	<u>5,762</u>	<u>(5,524)</u>	<u>238</u>
Trading income (loss)	<u>\$ 4,624</u>	<u>\$ (3,330)</u>	<u>\$ 1,294</u>

e. Other income and expenditures

The breakdown of other income and other expenses for 2022 is presented below:

	2022
Otros income:	
Result from portfolio acquisition	\$ 0
Lease income	0
Tax recovery	0
Cancellation of liability accounts	0
Result for valuation of items not related to the financial margin	5
Other items of the (expenses) and income of operation	<u>108*</u>
Total of other income:	<u>\$ 113</u>
Other expenditures:	
Result from sale of foreclosed assets	\$ -
Miscellaneous losses	(2)
Contributions to the IPAB	(200)
Donations	<u>(2)</u>
Total of other expenses:	<u>\$ (204)</u>
Total of other (income) expenses from operations:	<u>\$ (91)</u>

* This item is mainly made up of \$148 corresponding to the provision of administrative services with related parties.

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Nota 24 – Comprehensive risk management:

The fundamental purpose of the Institution is to generate value for its shareholders while maintaining the stability and solvency of the organization. Adequate comprehensive Management of the risks to which the Institution is exposed in its daily activities is considered as a fundamental element in achieving that purpose. Comprehensive risk Management is understood to be the set of goals, policies, procedures and steps to be implemented in order to identify, measure, monitor, limit, control, report and disclose the different risks, whether discretionary (credit, liquidity and market) or non-discretionary (operating, technological and legal).

In compliance with the provisions issued by the CNBV, the Institution has concluded that the implementation of the strategic plan submitted to the CNBV and it continues to strengthen operational risk Management according to the current regulations and corporate standards. In compliance with those provisions, a Risk Committee has been set up to monitor that the operations are always in line with the risk Management goals, policies and procedures, as well as with exposure limits approved by the Committee. This Committee meets at least monthly and functions according to the guidelines contained in the said provisions. The Risk Committee, in turn, relies on the Integrated Risk Management Unit to identify, measure, monitor and disclose risks in accordance with the current legislation.

The purpose of the Risk Management Unit ("UAIR") is to identify, measure through the established limits, monitor and report the quantifiable risks faced by the Institution through its daily operations. Evaluates whether the risk levels are adequate, follows up on the causes that may have caused any deviation from the pre-established limits and reports them to the corresponding areas. In the case of non-quantifiable risks, you must collect the information that allows you to assess the probable impact that such risks could have on the proper operation of the Institution.

Market risk

The Market Risk Management department is responsible for recommending the Institution's market risk Management policies, establishing the parameters for risk measurement and providing Senior Management, the Risk Management Committee, the Board of Directors and other risk-taking departments with reports, analyses and assessments.

The measurement of market risk quantifies potential loss due to changes in risk factors that affect the valuation or the expected results of assets, liabilities or contingent liabilities operations, such as interest rates and exchange rates.

The methodology that the Institution has adopted to manage this type of risk is through the VaR that is calculated daily through the locally developed tool known as Market Risk Calculator, which complies with the standards required by the Corporation. VaR is an estimate of the potential loss in value over a given period of time given a level of confidence. VaR is used both to control the risk of trading portfolios and to limit the risk of movements in interest rates in other positions included in the balance sheet. The Institution does not have instruments available for sale. That is, all active and passive positions subject to market risk, such as investments in securities, operations with DFIs, repurchase agreements and promissory notes are included in this measurement. The VaR method used is known as historical simulation, with a holding horizon of one day with a confidence level of 99%, in addition to decision-making by "heavy tails" (expected shortfall). Three years of history are considered to estimate changes in risk factors. At the average of the last quarter, the average VaR for the quarter is Dls.3,828,121, which corresponds to 0.58% of the Institution's net capital and a maximum of Dls.4,855,051. The approved value-at-risk limit is Dls.10 million. No excesses to the approved limit were observed during the fourth quarter.

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Backtesting is performed on a daily basis to compare the profits and losses that would have been observed if the same positions had been held, considering only the change in value due to market movements against the value at risk calculation, thus being able to assess the accuracy of the prediction. During the third quarter of 2022 there were four exceptions to the hypothetical calculation of profits and losses against the daily value at risk calculation.

To complete the analysis, sensitivity measures are reported, such as the result of a movement of one basis point over each term that is considered a risk factor in different interest rate curves. The sensitivity analysis as of December 31, 2022 is the following:

	Gubernamental	TIIE	US Libor	Inflation
Plazo				
1 Day	\$ (2)	\$ 1,415	\$ 14	\$ (143)
1 Month	(1,480)	2,284	3,751	-
3 Months	(3,384)	3,160	11,702	-
6 Months	903	14,552	9,380	-
9 Months	4,608	(30,206)	11,315	(18)
12 Months	(4,769)	(122,025)	4,226	(9,277)
2 Years	(26,838)	14,007	(1,209)	13,937
3 Years	10,343	(211,589)	(2,425)	(5,352)
4 Years	7,250	139,880	(36,571)	(58,008)
5 Years	4,071	(76,249)	22,387	13,861
6 Years	2,490	1,657	24,910	17,307
7 Years	1,817	84,768	(25,660)	(67,559)
8 Years	19,889	-	(10,637)	(1,437)
9 Years	14,193	15,449	33,350	(17,724)
10 Years	(9,629)	145,038	(45,637)	82,182
20 Years	13,126	(49,467)	12,083	(16,520)
30 Years	13,900	4,714	(5,569)	(22,657)
Total	<u>\$ 46,488</u>	<u>\$ (62,612)</u>	<u>\$ 5,410</u>	<u>\$ (71,408)</u>

Figures in USD

Finally, daily tests are conducted under extreme conditions to assess the impact of different scenarios, both historical and hypothetical, on the total value of the portfolio. There is a limit of thirty two millions of dollars for the scenario that corresponds to the worst hypothetical loss produced with the sample with which the VaR is calculated. The average stress for the quarter is Dls. 9,051,463 with a maximum of Dls.12,749,732 and a minimum of Dls.7,025,290. No breach of the limit was observed during the fourth quarter.

MEXDER's activity for the fourth quarter was as follows:

Type	Series	Operation	Vol		
			October 2022	November 2022	December 2022
TIIE 28	130x1	Receive	50		
TIIE 28	52x1	Receive			25
TIIE 28	130x1	Receive			50
TIIE 28	130x1	Receive			50

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Liquidity risk

a. Objectives and Policies of Liquidity Risk Management

The fundamental objective in liquidity risk Management is to ensure that the institution can meet all its financial obligations through the normal business cycle and also in periods of stress.

The company has a "Liquidity Risk Management Policy", which constitutes the conceptual framework for the management of this type of risk. The Policy provides the internal governance framework, as well as the controls and processes to allow the Institution to comply with its financial obligations. This document establishes the need to have processes for:

- Monitoring and Reporting .
- Design and implementation of Limits .
- Liquidity Stress Tests .
- Transfer of the cost of liquidity .
- Funding Contingency Plan.

b. Description of the methodologies to identify, quantify, manage and control the Liquidity Risk

The liquidity risk Management is carried out considering all the items of the Balance Sheet taking into account the portfolio of the trading book and the banking book through the use of the methodologies described below:

b.1 Potential Loss

Liquidity risk is associated with the potential loss arising from the impossibility or difficulty to renew liabilities or to contract other liabilities under normal conditions for the Institution, for the early or compulsory sale of assets at unusual discounts to meet its obligations, or due to the fact that a position may not be sold, acquired or covered on a timely basis by establishing an equivalent counter-position. In order to quantify the potential loss arising from the early or forced sale of assets at unusual discounts, the Institution has adopted a methodology closely resembling Value at Risk, which it has called "Liquidity at risk". Through historical simulation techniques, the effect of buy and sell spreads on the positions is quantified in order to determine the potential loss from reversing the positions. The selected confidence level is also 99%. Similarly, as a complementary measure to the liquidity risk analysis, the liquidity VaR was created, which quantifies potential loss due to the inability to sell a position for a period of 10 days.

b.2 Analysis of liquidity gaps

In order to measure and monitor the cash flow from asset and liability operations in national currency and dollars, a series of intervals are outlined in each currency in which the entity operates. The measurement of the liquidity position through gap analysis includes the allocation of each asset, liability and off-balance sheet items on the corresponding date based on effective maturity or liquidity duration.

The term for which inflows (assets) and outflows (liabilities) are committed will be used to identify the liquidity risks and to analyze the impact of our exposure. Inflows (assets) and outflows (liabilities) are based on a contractual and behavioral perspective, which should always assume a conservative approach when estimating their term of execution.

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b.3 Diversification of funding sources and liquidity in Foreign Currency

In order to assess the diversification of funding sources, the Provisions for Diversification in Performing Assets and Liabilities Operations are applied, in accordance with the rules issued for such purpose by the Commission. Additionally, for the US Dollar portfolio, the criteria established in Banxico Circular 03/2012 regarding the "Investment regime and admission of liabilities in foreign currency" are used.

During the quarter, no breaches were observed in these indicators maintaining a liquid and diversified position with respect to the standards.

b.4 Stress tests

The stress testing model consists of applying a series of variables oriented at assessing the Institution's resistance to changes in the internal or systematic environment arising from a change in the behavior of markets, debtors or investors for the purpose of identifying latent risks or detecting vulnerabilities. The tests comply with the principle of proportionality, i.e. the Institution has designed a stress testing program in accordance with the complexity of its business, its appetite for risk and the nature of its operations.

Under normal conditions, liquid assets equivalent to at least the total expected outflows are held. The Institution centers its analysis on a one-month term, which results in cumulatively higher concentrations of cash flows in each of the tests. The utilized scenarios mainly analyze liquidity shocks on two levels: the fall in deposits and the loss of value of liquid assets.

c. Organization of the function for liquidity risk Management

The monitoring and follow-up of the entity's Liquidity position is carried out by the Institution's Finance department, which is independent of any of the Institution's business lines. The Finance department has technological tools that allow it to extract transaction and accounting information in order to adequately monitor the Liquidity position.

d. Liquidity risk mitigation policy

The Institution has a Contingency Financing Plan ("BAMSA CFP") which describes the strategies to follow in the event of a possible situation of uncertainty in operations. The Board of Directors is responsible for approving the Contingency Plan once the Risk Committee has done so and recommends it for it. It is responsible for determining whether the strategies designed are sufficient to meet the Institution's obligations in an adverse scenario. Each stage of the plan has a person responsible (s) to activate or annually the respective contingency level.

The BAMSA CFP provides a structure for the clear assignment of functions and responsibilities, procedures for their activation and escalation, tests of their operation, internal and external communication, additional information requirements and activation of actions to preserve and improve liquidity of the institution.

The BAMSA CFP establishes:

- Indicators of liquidity stress to activate a contingency;

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- Roles and responsibilities, communication protocols;
- Funding sources and activities to be implemented in the event of a stressful situation;
- An analysis to apply to stress tests to determine their suitability;
- Operational tests and if necessary
- The process to update it and amend the actions defined with the purpose that are really useful during its application.

e. Process to continuously monitor Liquidity Risk

The Institution has established a list of limits to ensure that the liquidity risk is within the risk profile established by the Board of Directors and the Risk Committee.

The limits, guidelines and Early Warning Indicators (EWIs) are defined as follows:

- Limits: reserved for the most important monitoring. Breaches require notification and the implementation of corrective actions.
- Early warning indicators: these identify changes in the market perception and/or liquidity position observed in the Institution's operations and its liquidity requirement. Metrics above the defined levels require notification.

All early warning limits and indicators are under the control of the Risk Committee, which will be responsible for approving any changes, determining changes in monitoring frequency, establishing the escalation process and reviewing these annually.

f. Quantitative information on Liquidity Risk

As of December 31, 2022, the "Internal Liquidity Coverage" limit was > 500%. Additionally, the entity prepares and monitors the observed level of the Liquidity Coverage Ratio (CCL) in accordance with the Liquidity Provisions, which as of December 31, 2022 was 179% against a minimum regulatory limit of 100%. During the fourth quarter, no excesses were observed in these indicators, maintaining a liquid and diversified position with respect to the norm.

In reference to the measurement of "Liquidity at risk" the average observed during the fourth quarter was Dls. 780,164 with a maximum of Dls. 889,033 and a minimum of Dls. 669,778. The guideline for such exposure as of December 31, 2022 is Dls. 676,637. No excesses were observed during the fourth quarter.

Regarding the Liquidity VaR during the period, the observed average was Dls. 12,105,582 with a maximum of Dls. 15,353,020 and a minimum of Dls. 10,484,897 as follows: The guideline for this exposure as of December 31, 2022 is Dls. 13,408,518. No excesses of the limit were observed during the quarter.

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Currently, the Institution only accepts cash guarantees, so there is no maximum concentration limit for guarantees received, these correspond to 99% financial institutions and 1% to corporations. The cash received can be used in Investment, Deposit and collateralized transactions. The liquidity risk associated with both operations in foreign currency and in national currency is duly covered in accordance with the Provisions of the Investment Regime (Circular 3/2012 Banxico) and the General Provisions on Liquidity Requirements for Institutions. Multiple Banking respectively. Likewise, this type of risk is duly funded and is managed within the applicable regulatory limits.

The following figures show information for the fourth quarter of 2022 average:

	2022	% of concentration
Cash and cash equivalents	\$ 951	100%

By breaking down the Balance sheet transactions according to maturity term, the liquidity gaps shown in the next table are obtained:

December 31, 2022							
	Liquidity gaps – Number of days						
	0 a 9	30 a 69	60 a 89	90 a 179	180 a 269	270 a 359	360 a > 1 año
Assets	89,739	8,907	7,698	32,936	7,781	16,568	296,947
Liabilities plus Equity	86,137	6,399	5,844	32,297	6,414	15,764	307,721
Funding differences	3,602	2,508	1,855	639	1,367	804	(10,774)

In millions of Mexican pesos

For this fiscal year, the demand deposits were all placed within a period of at least 30 days to maturity. Transactions with derivative instruments were distributed in relation to their term to maturity. The amount corresponding to Capital and Fixed Assets was assumed in its entirety in a term greater than 1 year. The only outflow not captured according to the LCR (Liquidity Coverage Ratio or CCL by its Spanish acronym) conceptual framework that is relevant for the Institución, is the amount related to Administrative and Promotional Expenses, which represents an average monthly cash outflow.

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The guidelines that have been approved are shown in the following table and were presented and approved by the Risk Committee.

Analysis	Description	Limit	Early warning Indicator
ACLME	Regulatory - Admission of Liabilities	1.83 x Basic Capital	90% of Limit
	Regulatory - Liquidity Ratio in Foreign Currency	Surplus of Liquid Assets in ME vs. Net Outputs	More than USD 10m
Diversification	Regulatory - Funding diversification	<i>Corporate</i> Each counterparty cannot exceed 40%, 30% of the Basic Capital according to the published quarterly ICAP and the 3 main counterparties cannot exceed 100% of the Basic Capital. <i>Financial institutions</i> Each counterparty cannot exceed 100% of the Basic Capital.	90% of Limit
Gap Analysis	Gap Analysis	NA	NA
Liquidity Coverage Ratio (CCL)	Regulatory - CCL	100%	110%
Stress Test (Combined Scenario)	Gap Analysis - Stress Scenario	NA	115%
Stable Financing	Regulatory (FE)	100%	<u>104%</u>

Credit Risk

This is the potential loss due to non-payment by a borrower or counterparty in the transactions carried out by the Institution. The maximum credit risk that the Institution is willing to assume is the limit established by the Commission in the Provisions for Risk Diversification in the Performance of Assets and Liabilities Operations. Similarly, the risk limits assumed by a person or group of persons constituting a shared risk or considered to be related are set in accordance with the same standards.

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The Institution permanently monitors each of the loans in its portfolio, gathering all relevant information that indicates the situation of the loans in question, the guarantees, where appropriate, taking care that they maintain the minimum proportion that may have been established and the guarantors, as if it were any other borrower. The credit area is the area that performs this function. The analysis of credit risk ratings is carried out at least on a quarterly basis.

The Institution carries out the administration of the credit risk, adhering to the prudential provisions regarding Comprehensive Risk Management referred to in Chapter IV of Title Two of the CUB.

The Institution's credit area is responsible for managing credit risk, carrying out the following functions:

1. Monitor the quality and main risk and return trends of the portfolio.
2. Establish guidelines and criteria to apply the methodology for rating the loan portfolio in accordance with the applicable provisions, as well as to verify that such rating is carried out with the periodicity according to the applicable regulations.
3. Verify that the criteria for assigning interest rates applicable to credit operations are in accordance with the risk inherent in them and are in line with the provisions of the credit manual.
4. Establish the guidelines to determine the degree of risk of each loan.
5. Report at least monthly, to the Risk Committee and the General Management, the results of their analyzes, as well as the amount of the preventive reserves that should be established.

In compliance with Article 28 of the CUB, the Internal Audit area carries out an annual review on credit matters, which enables the establishment and follow-up of procedures and controls related to operations that involve any risk and the observance of the Limits of Exposure to Risk.

The description of the portfolio and the expected losses are indicated in the section corresponding to the rating of the loan portfolio. To calculate the unexpected loss of the commercial credit portfolio, a Monte Carlo simulation model is used considering the Institution's total portfolio, using the balances at the end of the period as credit exposure and the limit as probability of default the higher limit of the qualification to which each credit corresponds. 100% severity of loss is assumed. The tenure horizon is one year and it is assumed that there are no dependency relationships between borrowers. The reliance level is 99%.

The unexpected loss as of December 31, 2022 is as follows:

Portfolio in MXP	102.591
Portfolio in USD	77.610
Total loan portfolio	121.916

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Millions of US dollars

The average of the last four quarters for the unexpected loss of the loan portfolio is:

Portfolio in MXP	110.393
Portfolio in USD	84.907
Total loan portfolio	119.075

Millions of US dollars

To measure risk with financial instruments, the future exposure of DFI operations is estimated through Monte Carlo simulation. Counterparty risk lines are affected according to the maximum exposure observed at a 95% confidence level during the remaining life of all operations for each counterparty.

Operational, technological and legal risk

Operational risk is defined as the potential loss from faults or deficiencies in internal control mechanisms, errors in the processing and storage of operations or from the transmission of information, as well as due to adverse administrative and judicial decisions, fraud or theft, and includes, among others, technological and legal risk.

Responsibility for operational risk Management rests primarily with the head of the operational risk department, under the supervision of the Risk Committee and the UAIR [Unidad de Administración Integral de Riesgos (Integrated Risk Management Unit)] representative; however, all associates are responsible for contributing to the identification and management of operational risk, as well as the implementation of controls to ensure compliance with the applicable internal and external regulations (corporate and/or regional policies and standards issued by the local regulators).

The Operational Risk Management methodology is based on Identifying, Measuring, Monitoring and Controlling/Mitigating operational risks. The tools that support the Operational Risk methodology are the TOR (Tool for Operational Risk), which is used to register and consolidate Operational Risk events that have occurred, such as operational incidents, operational losses, operational risks and internal control monitoring issues for their Management, timely follow-up, establishment of action plans for mitigation, as well as the generation of Operational Risk regulatory reports.

The relevant cases of events due to operational risk, as well as the corrective actions, are presented to the Risk Committee by type of event (incident, loss, etc.).

Additionally, there is an Operational Risk Inventory, which serves as the basis for establishing Operational Risk Indicators/Metrics according to the frequency and impact of the events reported in the TOR, as well as the report showing the Operational Risk rating at the entity or Business Unit level "Risk and Control Self Assessment" (RCSA) and the Tolerance Levels. This information is evaluated by the Operational Risk department and presented to the Risk Committee as part of the Institution's operational risk profile for decision making.

The level of Operational Risk Tolerance is documented in the Desired Risk Profile Matrix, it is monitored and it is presented to the Risk Committee on a monthly basis. If there is an excess of the established levels, this will be notified to the Risk Committee for its review and comments.

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Loss of \$918,840 pesos. Fine for regulatory non-compliance with respect to point 25 of the SPEI Operation Manual (Procedures for the management of a secure network) specifically regarding the implementation of access control lists between terminals and servers. Non-compliance was detected through a survey conducted on December 10, 2018.

During the fourth quarter there were no excesses in the Operational Risk Tolerance Levels.

At the end of December 2022, the capitalization index amounted to 21.15%. The Institution uses the Basic Indicator Method to calculate the capital requirement for its exposure to Operational Risk, contained in the Rules for the capitalization requirements of commercial banks, which consists of applying a fixed established percentage (15%) on the average of the last three years of their positive annual net income.

Regarding technological risk, policies and procedures have been implemented to mitigate potential losses due to damage, interruption, alteration or failures derived from the use or dependence on hardware, systems, networks and any other information distribution channel in the provision of information services. Among the most notable are the following:

Inventory of all the applications where it is documented, among other things: description, frequency with which the review of user access is carried out, date of the last time the application was tested in the contingency site, location of the recovery plans, owner of the application by the business line and responsible for the application in the technology area, application recovery time.

Infrastructure risk assessment; The Institution has a list of hardware and software in which the state of the technology and the established periods of the different stages of its life cycle are classified. Components that do not meet the minimum requirements set by the Institution must be replaced within a pre-established and agreed term.

Interaction diagrams of all the applications in use and their dependencies.

Review, update and strengthening of the business continuity plan (BCP) with the obligation to test said plan at least once a year.

Weekly follow-up meetings between the systems director and his direct reports.

Monthly meetings where regional management participates and reviews the country's strategic plan, current problems and re-prioritization of projects.

Annual local IT budget where business priorities are aligned.

In terms of legal risks, the procedures that have been implemented, among others, are the following:

All the models of agreements, contracts and formalization of guarantees are approved by the legal area, as well as any proposed modification to the existing models must be approved by the legal area in order to ensure that the Institution does not assume legal risks as well as verify the legal validity of contracts and their changes.

The Regulatory Comptrollership area is responsible for informing directors and employees of the legal and administrative provisions applicable to operations, as well as their modifications and updates.

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The amount of potential losses derived from adverse administrative or judicial resolutions is estimated, as well as the possible application of sanctions. Such estimates include the performance of the Institution acting as plaintiff or defendant, as well as its participation in administrative proceedings.

A historical database is kept that contains legal and administrative resolutions, as well as their causes and costs.

The Legal and Regulatory Comptrollership areas follow up on judicial and administrative resolutions.

An external firm was contracted to carry out annual legal audits.

The amount of potential losses derived from unfavorable judicial or administrative resolutions, as well as the possible application of sanctions, in relation to the operations carried out in the institution for 4Q22 is \$980,385 taking into account the amounts paid.

Compensation system

In compliance with article 168 Bis 7 of the general provisions applicable to credit institutions, the Comprehensive Risk Management Unit, together with the Risk Committee, informs the Board of Directors of the following:

Regarding the Remuneration system, the Risk Management Unit in conjunction with the Risk Committee have carried out analysis of the risks presented within the Institution (Market, Credit, Liquidity, Operational, Legal, Regulatory and Technological) to Verify the effect on the balance relationship between the risks assumed and the Business Units, or, where appropriate, by any particular employee who was subject to the Remuneration System and the applicable remunerations during the year.

It was defined that the risks that could represent a possible modification in the remuneration of an employee are the Particular Limits of Operators, Personnel Risk, Legal Risk and Regulatory Risk.

As of December 31, 2022, it was confirmed that there has been no identified activity that could result in a corrective action in the compensation of any of the employees.

Coverage and/or mitigation policies for each risk type

Credit risk mitigation (guarantees and collateral). To mitigate credit risk through hedging and collateral, the need to request an increase in collateral for exposures where certain coverage levels have been established is monitored daily, and margin calls are made if necessary.

The Institution's credit policies establish the requirements for effectively documenting collateral, including a well-defined framework of roles and responsibilities and the types of acceptable collateral.

Coverage through guarantees is one of the main risk mitigation techniques in derivatives transactions. The term "collateral" means assets given as security to mitigate losses resulting from a counterparty's failure to pay. When the institution interacts with counterparties in derivatives products, it frequently enters into clearing agreements and, in some cases, deposit agreements that give the bank the right to liquidate the collateral in the event of non-payment by the counterparty and unilaterally collect these debts.

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In the case of loans with non-financial collateral, the physical condition, legal status and insurance of the asset in question, as well as the market circumstances, shall be reviewed, and an updated valuation shall be considered. Likewise, in the case of personal guarantees, the guarantor is evaluated like any other customer.

In the case of loans or derivatives with financial collateral (liquid collateral), these include cash or equivalents, marketable securities, shares, bonds and other financial instruments issued by the Mexican government or other sovereign entities. Liquid assets are accepted as collateral to reduce credit risk, however, credit risk can also create an operational risk to the extent that it does not perfect, its value is not monitored, or the relevant regulations are not complied with. Other significant risks when accepting liquid collateral include market risk, issuer risk and liquidity risk.

Strategies and processes for monitoring the ongoing effectiveness of hedging or the various risk mitigants

The system used to calculate the allowances for the Expected Loss due to credit risk is called the Credit Risk Estimation System (Sistema de Estimación de Riesgo Crediticio, SERC). This is an application developed internally by the institution to perform calculations automatically, and one of its main characteristics is that it reduces the manipulation of data by users to a minimum.

After loading the source files and financial information provided by the customer, the application identifies the client type, loan type and loan structure.

To calculate the credit exposures under derivative instruments, a tool called Credit Studio is used, which provides a single consolidated platform for managing counterparty exposure.

Continuous and comprehensive monitoring is essential for the timely detection of risk increases and deterioration in portfolio quality. Proactive portfolio Management is particularly important for high-risk assets, to ensure adequate monitoring and assessment of the borrower's future performance, repayment capacity, risk rating and overall borrower strategy. As a minimum, the commercial portfolio monitoring practices include the assessment of the trade strategy, financial results and duly documented action plans, including specific performance objectives for their execution. The monitoring and ratification of the repayment sources, suitability of the structure and risk mitigation alternatives, including the valuation of the collateral and its hedging.

Credit risk Management reporting for transactions with financial instruments, including derivative financial instruments:

a. Qualitative information:

1. The methodology used for allocating capital and set limits on credit exposures to counterparties.

In relation to the allocation of capital to transactions with financial instruments, including derivative financial instruments, that the institution makes this estimate based on the Capitalization methodology for Credit risks established in the General Provisions applicable to Credit Institutions.

2. Policies for securing collateral and establishing credit reserves.

Not applicable because the Institution does not accept collateral.

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3. Policies related to exposures to wrong-way risk.

Wrong-way risk. Wrong-way risk is created when the credit quality of the counterparty is positively correlated to the underlying credit exposure of the transaction, so that as the creditworthiness of the counterparty goes down, the fair value owed by the counterparty tends to increase. This correlation can also occur when the underlying product is self-referring; for example, a put option on the seller's own shares.

There are two types of Wrong-Way Risk ("WWR"): a) Specific WWR: transactions that are self-referenced, e.g., counterparties trading their own securities; and b) General WWR: when the probability of default of the counterparties is positively correlated with general market risk factors, such that the fair value increases as the credit profile of the counterparty deteriorates.

g. Quantative information

1. Positive fair value on gross contract terms, netting benefit, netted current credit positions, held collateral (specifying its type), and net credit positions with derivatives (net credit exposures refer to credit derivative hedges after considering the benefits of both contractually established netting agreements and collateral agreements).

The current and future exposure per counterparty or group of counterparties that can be considered as one.

Counterparty	Amount
Counterparty 1	\$ 8,050
Counterparty 2	1,107
Counterparty 3	358
Counterparty 4	313
Counterparty 5	203
Counterparty 6	842
Counterparty 7	277
Counterparty 8	550
Counterparty 9	4,187
Counterparty 10	1,945
Counterparty 11	251
Counterparty 12	29
Counterparty 13	93
Counterparty 14	1,001
Counterparty 15	91
Counterparty 16	24
Counterparty 17	135
Counterparty 18	-
Counterparty 19	20
Counterparty 20	409
Counterparty 21	636
Counterparty 22	25
Counterparty 23	90
Counterparty 24	159
Counterparty 25	12
Counterparty 26	185
Counterparty 27	238
Counterparty 28	125
Total	<u>\$ 21,355</u>

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The concentration risk with Counterparty 1 is high, however it is mitigated by 1. the credit quality of the same, which has investment grade in its public ratings and 2. the term and type of transactions (1 business day and collateralized).

Mark to market of DFI exposure

Counterparty	MTM
Total companies	\$ 390
Total financial companies	(2,159)
Total government	<u>(741)</u>
Grand total	<u>\$ (2,510)</u>

The assessment of the credit quality of counterparties: prior to performing transactions, Bank of America México, S. A. Institución de Banca Múltiple may only execute transactions on financial instruments, including derivatives, with the persons who maintain a credit line when there is counterparty risk. Likewise, for the aforementioned credit line, the maximum payment capacity must be considered through the corresponding credit analysis, for which the minimum information and documentation, established in the credit manual and in the applicable provisions must be contained. Under no circumstances may it trade with counterparties that do not have an approved limit.

- The impact of the collateral amount that the Institution would have to provide in the event that its credit rating was downgraded, identifying the transactions with derivatives broken down according to their hedging or trading function and a distribution of the used credit derivatives, in turn, broken down according to whether they correspond to acquired protection or sold protection for each group of derivatives.

At the end of the fourth quarter, there is no impact on the contracts with derivatives in the event that the credit rating of Bank of America México, S. A., Institución de Banca Múltiple is lowered due to the fact that the current counterparties do not have this clause or, if applicable, the MTM is against the Institution.

Note 25 - Capitalization Index:

As of December 31, 2022, the Bank presents a capitalization ratio of 21.15 which is made up as follows:

- The equity composition without considering transience in the application of regulatory adjustments is shown below:

Concept	Monto
Common equity Tier 1:	
Common shares that qualify for Tier 1 common equity plus corresponding premium	\$ 5,270
Income or loss from previous years	5,736
Other items of comprehensive income (and other reserves)	3,170
Common equity Tier 1 before regulatory adjustments	14,176
Regulatory adjustments Tier 1	
Goodwill (net of its corresponding deferred income taxes expensed)	-
Other intangibles other than mortgage service rights (net of their corresponding deferred income taxes expensed)	-
Deferred income taxes in favor that depend on future earnings, excluding those derived from temporary differences (net of deferred income taxes expensed)	-
Income from valuation of cash flow hedging instruments	-
Reserves pending establishment	-
Benefits on the remainder in securitization transactions	-
Defined benefit pension plan	-
Investments in own shares	-

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Concept	Monto
Reciprocal investment in ordinary capital	-
Investments in the equity of banks, financial institutions and insurance companies outside the scope of regulatory consolidation, net of eligible short positions where the Institution does not own more than 10% of the issued capital stock (amount that exceeds the 10% threshold)	-
Significant investments in ordinary shares of banks, financial institutions and insurance companies outside the scope of regulatory consolidation, net of eligible short positions, where the, Institution does not own more than 10% of the issued capital stock (monto que excede el umbral del 10%)	-
Mortgage servicing fees (amount that exceeds the 10% threshold)	-
Deferred income taxes in favor from temporary differences (amount that exceeds the 10% threshold, net of deferred taxes expensed)	-
From which: Other items of comprehensive income (and other reserves)	-
From which: Investments in subordinated debt.	-
From which: Profit or increase in the value of assets from the acquisition of securitization positions (Organizing Institutions)	-
From which: Investments in multilateral organizations	-
From which: Investments in related companies	-
From which: Investments in risk equity	-
From which: Investments in investment funds	-
From which: Financing for the acquisition of own shares	-
From which: Transactions that contravene the provisions	-
From which: Deferred charges and advanced payments	-
From which: Positions in First Loss Schemes	-
From which: Deferred employees' statutory profit sharing	-
From which: Relevant related parties	-
From which: Defined benefit pension plan	-
Regulatory adjustments that apply to common equity Tier 1 due to insufficient additional Tier 1 stock and Tier 2 stock to cover deductions	-
Ajustes regulatorios totales al capital común de nivel 1	-
Common equity Tier 1 (CET1)	14,176
Additional equity	
Instruments issued directly that qualify as additional Tier 1 equity, plus its premium	-
From which: Classified as equity under the applicable accounting criteria	-
Directly issued equity instruments subject to phasing out of additional Tier 1 equity	-
Additional equity Tier 1 before regulatory adjustments	
Additional equity Tier 1 regulatory adjustments	No aplica
National regulatory adjustments	-
Total additional equity Tier 1 regulatory adjustments	-
Additional equity Tier 1 (AT1)	-
Equity Tier 1 (T1 = CET1 + AT1)	14,176
Equity Tier 2: instruments and reserves	
Instruments issued directly that qualify as Tier 2 equity, plus its premium	-
Directly issued equity instruments subject to phasing out of Tier 2 equity	-

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Concept	Monto
Reserves	-
Equity level 2 before regulatory adjustments	-
Equity level 2: Regulatory adjustments	
National regulatory adjustments	-
Total regulatory adjustments to equity level 2	-
Level 2 equity (T2)	-
Total equity (TC = T1 + T2)	14,176
Weighted assets by total risks	67,024
Equity ratios and supplements	
Common Equity Level 1 Capital (as a percentage of assets weighted by total risks)	21.15%
Level 1 Capital (as a percentage of risk-weighted assets totals)	21.15%
Total Capital (as a percentage of total risk-weighted assets)	21.15%
Institutional specific supplement [must include at least: the Common Equity Tier 1 Capital Requirement plus Conservation Buffer of capital, plus the countercyclical buffer, plus the D-SIB buffer; voiced as percentage of total risk-weighted assets]	23.56%
Of which: Capital Conservation Supplement	2.50%
Of which: Specific bank countercyclical supplement	No aplica
Of which: Local systemically important banks (D-SIB) supplement	No aplica
Common Equity Level 1 Capital available to cover supplements (such as percentage of total risk-weighted assets)	14.15%
Amounts below the thresholds for deduction (before the risk weight)	
Deferred income taxes in favor derived from temporary differences (net of deferred income taxes charged)	626,987
Limits applicable to the inclusion of reserves in Level 2 capital	0.00%
Reserves eligible for inclusion in Level 2 capital with respect to exposures subject to the standardized methodology (prior to the limit application)	-
Limit on the inclusion of provisions in Tier 2 capital under the standardized methodology	447,929
Reserves eligible for inclusion in Tier 2 capital with respect to to exposures subject to credit risk (prior to the application of the limit)	-
Limit on the inclusion of reserves in Tier 2 capital under the methodology of internal qualifications	-

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II. The concepts and amounts used in the integration of the Net Capital are the following:

Financial Statement Line Item	Amount
Asset	\$ 101,815
Cash and cash equivalents	10,538
Margin accounts (IFD)	1,464
Investments in financial instruments	17,016
Repurchase debtors	25,000
Securities Lending	-
DFI	4,129
Valuation adjustments for hedging of financial assets	-
Total loan portfolio (net)	27,252
Benefits to be received in securitization operations	-
Other accounts receivable (net)	15,511
Foreclosed assets (net)	-
Property, furniture and equipment (net)	70
permanent investments	95
Long-lived assets available for sale	-
Deferred income tax assets	627
Other Assets	113
Liabilities	\$ 87,639
Common equity	43,844
Interbank loans and loans from other organizations	-
Repurchase creditors	-
securities lending	4,528
Collateral sold or pledged	10,499
DFI	6,231
Valuation adjustments for coverage of financial liabilities	-
Obligations in securitization operations	-
Other accounts payable	21,794
Outstanding subordinated debentures	-
Income taxes and liabilities for employee benefits	728
Deferred credits and early collections	15
Stockholders' equity	\$ 14,176
Contributed capital	5,270
Earned capital	8,906
Memorandum accounts	\$ 91,959
Accounts Guarantees granted order	-
Contingent assets and liabilities	-
Credit Commitments	40,318
Assets in trust or mandate	1
Federal government financial agent	-
Assets in custody or under administration	-
Collaterals received by the entity	36,289
Collateral received and sold or given as security by the entity	15,351
Investment banking operations on behalf of third parties (net)	-
Uncollected accrued interest derived from overdue loan portfolio	-
Other registration accounts	-

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II a. The regulatory concepts considered for the calculation of the components of the Net Equity are the following:

Regulatory concepts considered for the calculation Of the components of the Net Equity	Amount in accordance with the Notes to the table of Regulatory Concepts considered for the calculations of the components of Net Equity	Reference (s) of the balance sheet item and amount related to the regulatory concept considered for the calculation of Net Equity from the mentioned reference.
Asset	\$ 627	
Goodwill	-	
Other intangible	-	
Deferred income tax (in favor) from losses and tax credits	-	-
Benefits on the remainder in securitization transactions	-	
Investments of the pension plan for defined benefits without unrestricted and unlimited access	-	
Investments in shares of the institution itself	-	
Reciprocal investment in ordinary capital	-	
Direct investments in the equity of financial entities where the institution does not hold more than 10% of issued capital	-	
Indirect investments in the equity of financial entities where the institution does not hold more than 10% of issued capital	-	
Direct investments in the equity of financial entities where the Institution holds more than 10% of the issued share capital	-	
Indirect investments in the equity of financial entities where the Institution holds more than 10% of the issued share capital	-	
Deferred income tax (in favor) from temporary differences	627	BG15
Reserves recognized as supplemental equity	-	
Investments in subordinated debt	-	
Investments in multilateral organizations	-	
Investments in related companies	-	
Investments in risk equity	-	
Investments in investment funds	-	
Financing for the acquisition of own shares	-	
Deferred charges and advanced payments	-	
Deferred employees' profit sharing (net)	-	
Defined benefit pension plan investments	-	
Clearing house investments	-	
Liability	\$ 0	
Deferred income tax (expensed) related to goodwill	-	
Deferred income tax (expensed) related to other intangible	-	
Liabilities of the defined benefit pension plan without unrestricted and unlimited access	-	
Deferred income tax (expensed) related the defined benefit pension plan	-	
Deferred income tax (expensed) related to other than the above	-	
Subordinated debentures amount that complies with appendix 1-R subordinated debentures subject to transience that compute as basic equity 2	-	
Subordinated debentures amount that complies with Appendix 1-S Subordinated debentures subject to transience that compute as Supplemental equity	-	
Deferred income tax (expensed) related to deferred charges and advanced payments	-	
Stockholders' equity	\$ 14,176	
Paid-in capital that complies with Appendix 1-Q	5,270	BG29; 5,270
Income or loss from previous years	5,736	BG30; 5,736
Income from valuation of cash flow hedging instruments	-	
Items of earned capital other than the above	3,170	BG30: Capital reserves: 798 Net income: 2,344
Paid-in capital that complies with Appendix 1-R	-	
Paid-in capital that complies with Appendix 1-S	-	
Income from valuation of cash flow hedging instruments of items not recorded at fair value	-	
Cumulative conversion effect	-	
Income for holding non-monetary assets	-	

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Regulatory concepts considered for the calculation Of the components of the Net Equity	Amount in accordance with the Notes to the table of Regulatory Concepts considered for the calculations of the components of Net Equity	Reference (s) of the balance sheet item and amount related to the regulatory concept considered for the calculation of Net Equity from the mentioned reference.
Memorandum accounts	\$ -	
Positions in First Loss Schemes	-	
Regulatory concepts not considered in the balance sheet	-	
Reserves pending establishment	-	
Profit or increase in the value of assets from the acquisition of securitization positions (Organizing Institutions)	-	
Transactions contravening the provisions	-	
Transactions with relevant related parties	-	

III. The amount of weighted positions exposed to market risk, weighted assets subject to credit risk and weighted assets subject to operating risk is made up as follows:

Weighted Assets Subject to Total Risk

III.1. Positions exposed to market risk by risk factor

Concept	Amount of the equivalent positions	Equity requirement
Transactions in national currency with nominal rate	16,652	1,332
Transactions with debt securities in national currency with a surcharge and a revisable rate	-	-
Transactions in national currency with real rate or denominated in UDIs or UMAs	5,938	475
Transactions in national currency with yield rate referred to the growth of the General Minimum Wage	-	-
Positions in UDIs, UMAs or with yield referred to the NCPI	48	4
Positions in national currency with yield rate referred to the growth of the General Minimum Wage	-	-
Transactions in foreign currency with nominal rate	1,966	157
Positions in currencies or with returns indexed to the Exchange rate	2,128	170
Positions in shares or with yield indexed to the price of a share or group of shares	-	-
Merchandise Positions	-	-

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III.2. Weighted assets subject to credit risk by risk group

Concept	Weighted Assets by risk	Equity requirement
Group I-A (weighted at 0%)	-	-
Group I-A (weighted at 10%)	-	-
Group I-A (weighted at 20%)	-	-
Group I-B (weighted at 2%)	72	6
Group I-B (weighted at 4.0%)	-	-
Group III (weighted at 20%)	724	58
Group III (weighted at 23%)	-	-
Group III (weighted at 57.5%)	-	-
Group III (weighted at 100%)	14	1
Group III (weighted at 115%)	-	-
Group III (weighted at 120%)	-	-
Group III (weighted at 138%)	-	-
Group III (weighted at 150%)	-	-
Group III (weighted at 172.5%)	-	-
Group IV (weighted at 0%)	403	32
Group IV (weighted at 20%)	57	5
Group V (weighted at 10%)	-	-
Group V (weighted at 20%)	-	-
Group V (weighted at 50%)	-	-
Group V (weighted at 115%)	-	-
Group V (weighted at 150%)	-	-
Group VI (weighted at 20%)	-	-
Group VI (weighted at 50%)	-	-
Group VI (weighted at 75%)	-	-
Group VI (weighted at 85%)	1,301	104
Group VI (weighted at 100%)	-	-
Group VI (weighted at 120%)	-	-
Group VI (weighted at 150%)	-	-
Group VI (weighted at 172.5%)	-	-
Group VII_A (weighted at 10%)	-	-
Group VII_A (weighted at 11.5%)	-	-
Group VII_A (weighted at 20%)	713	57
Group VII_A (weighted at 23%)	-	-
Group VII_A (weighted at 50%)	2,747	220
Group VII_A (weighted at 57.5%)	3,142	251
Group VII_A (weighted at 100%)	26,661	2,133
Group VII_A (weighted at 115%)	-	-
Group VII_A (weighted at 120%)	-	-
Group VII_A (weighted at 138%)	-	-
Group VII_A (weighted at 150%)	-	-
Group VII_A (weighted at 172.5%)	-	-
Group VII_B (weighted at 0%)	-	-
Group VII_B (weighted at 20%)	-	-

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Concept	Weighted Assets by risk	Equity requirements
Group VII_B (weighted at 23%)	-	-
Group VII_B (weighted at 50%)	-	-
Group VII_B (weighted at 57.5%)	-	-
Group VII_B (weighted at 100%)	-	-
Group VII_B (weighted at 115%)	-	-
Group VII_B (weighted at 120%)	-	-
Group VII_B (weighted at 138%)	-	-
Group VII_B (weighted at 150%)	-	-
Group VII_B (weighted at 172.5%)	-	-
Group VIII (weighted at 115%)	-	-
Group VIII (weighted at 150%)	-	-
Group IX (weighted at 100%)	-	-
Group IX (weighted at 115%)	-	-
Group X (weighted at 1250%)	-	-
Securizations with risk Grade 1 (weighted at 20%)	-	-
Securizations with risk Grade 2 (weighted at 50%)	-	-
Securizations with risk Grade 3 (weighted at 100%)	-	-
Securizations with risk Grade 4 (weighted at 350%)	-	-
Securizations with risk Grade 4, or 5 or Not rated (weighted at 1250%)	-	-
Resecuritizations with risk Grade 1 (weighted at 40%)	-	-
Resecuritizations with risk Grade 2 (weighted at 100%)	-	-
Resecuritizations with risk Grade 3 (weighted at 225%)	-	-
Resecuritizations with risk Grade 4 (weighted at 650%)	-	-
Resecuritizations with risk Grade 4, 5 or Not Graded (weighted at 1250%)	-	-

III.3 Weighted assets subject to operational risk

3 Weighted assets subject to operational risk Method used

Assets weighted by risk	4,457
Equity requirements	357
Average requirement for market and credit risk of the last 36 months	4,256
Average positive annual net income for the last 36 months	2,377

IV. Characteristics of the securities that are part of the Net Equity

The characteristics of the equity instruments or securities representing the capital stock that meets all the conditions established in any of the Appendixes 1-Q, 1-R or 1-S; as well as those securities subject to the transience established in the third transitory article of Resolution 50 are the following:

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IV.1. Main characteristics of the securities that are part of the Net Equity

Characteristics	Description
Issuer	Bank of America México SA Institucion de Banca Múltiple
ISIN, CUSIP or Bloomberg ID	Not listed don the market
Legal framework	Credit institutions Law, Article 32
Regulatory tratment	
Equity level with transience	N.A.
Equity level without transience	100% Fundamental
Instrument level	Unconsolidated credit institution subsidiaries
Type of instruments	Certificate of Patrimonial Contribution
Amount recognized in regulatory equity	100% Fundamental
Instrument face value	One Mexican peso
Currency of the instrument	Mexican pesos
Accounting classification	Capital
Issuance date	22 de marzo de 2022
Term of the instrument	Perpetuity
Due date	Without caducity
Advance payment clause	Not listed on the market
First prepayment date	N.A.
Regulatory or tax events	N.A.
Settlement price of the advance payment clause	N.A.
Subsequent Prepayment Dates	N.A.
Yields/dividends	
Type of yield/dividend	N.A.
Interest rate/Dividend	N.A.
Dividend cancellation clause	N.A.
Discretion in payment	N.A.
Interest increase clause	N.A.
Yield/dividends	N.A.
Instrument convertibility	N.A.
Convertibility conditions	N.A.
Convertibility degree	N.A.
Conversion rate	N.A.
Type of instrument convertibility	N.A.
Type of convertibility financial instrument	N.A.
Instrument issuer	N.A.
Decrease in value clause (Write-Down)	N.A.
Conditions for decrease in value	N.A.
Degree of loss of value	N.A.
Temporality of the loss of value	N.A.
Temporary value decrease mechanism	N.A.
Subordinate position in case of liquidation	Overall creditors
Default characteristics	No
Description of the default characteristics	N.A.

V. Weights involved in the calculation of the Countercyclical Capital Supplement.

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Jurisdiction

United States
Mexico

Weighter

7.96%
92.04%

Leverage Ratio

As of December 31, 2022, the Institution's leverage ratio is as follows:

Concept

Amount

Exposure within balance

On-balance sheet items, excluding derivative financial instruments and Reverse repurchase agreement and security loan transactions (SFT), but including collateral received as collateral and recorded on the balance sheet).

\$ 62,187

(Amounts of the assets deducted to determine the Basic Equity)

-

On-Balance Sheet Exposures (Net) (excluding derivative financial instruments and SFTs)

62,187

Exposure to derivative financial instruments

Current replacement cost associated with all transactions with derivative financial instruments (net of allowable cash variation margin)

2,835

Amounts of the additional factors for potential future exposure,

associated with all transactions with derivative financial instruments

12,112

Increase in Collaterals provided in transactions with derivative financial instruments when said collaterals are derecognized from the balance sheet in accordance with the operating accounting framework

N/A

(Deductions from accounts receivable for variation margin in cash contributed in transactions with derivative financial instruments)

(5,263)

(Exposure for transactions in derivative financial instruments on behalf of clients, in which the clearing partner does not grant its guarantee in the event of non-compliance with the obligations of the Central Counterparty.

N/A

Adjusted effective notional amount of credit derivative financial instruments subscribed

N/A

(Offsets made to adjusted cash notional of subscribed credit

derivative financial instruments and deductions of additional factors

for subscribed credit derivative financial instruments)

N/A

Total exposure to derivative financial instruments

9,683

Exposure for securities transaction financing

Gross SFT assets (without offset recognition), after adjustments for sales accounting transactions

35,499

(Accounts payable and receivable from SFT offset)

-

Counterparty Risk Exposure by SFT

-

Exposure for SFT acting as third party

-

Total exposure for securities transaction financing

35,499

Other off-balance sheet exposures

Off-balance sheet exposure (gross notional amount)

40,318

(Conversion adjustments to credit equivalents)

(33,414)

Off-balance sheet items

6,904

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Concept	Amount
Equity and exposure total	
Level 1 Equity	14,176
Total exposure	114,273
Leverage Ratio	
Leverage ratio of Basilea III	12.41%
Total Assets	101,815
Adjustment for investments in the capital of banking, financial, insurance or commercial companies that are consolidated for accounting purposes, but are outside the scope of regulatory consolidation	-
Adjustment related to fiduciary assets recognized in the balance sheet in accordance with the accounting framework, but explained from the ratio exposure measure of leverage	No aplica
Adjustment for derivative financial instruments	5,554
Adjustment for repurchase agreements and securities lending	-
Adjustment for items recognized in memorandum accounts	6,904
Other adjustments	-
Exposure of leverage ratio	114,273

Note 26 – Subsequent events:

2022 presented a rebound in the global economy, as well as an international rise in interest rates, however the presence of new variants and uncertainty of the culmination of the pandemic presented difficulties and important challenges in the results of the Institution as well as the war conflicts in Europe. A conservative and skeptical position is maintained in the future, maintaining controls in all processes to minimize risk and avoid any adverse scenario that could put the entity at risk.

Note 27 – New accounting pronouncements:

The following describes a series of MFRS issued by CINIF during December 2021 and 2022, which will take effect in 2023. Those MFRS are not considered to have a significant affectation in the financial information to be presented by the Company.

MFRS 2023

MFRS B-14 "Earnings per share". Establishes the bases for determination and rules for the disclosure of earnings per share (EPS), highlighting, among other, the following: a) for the determination of the basic EPS, clarifications related to dividends and other rights of preferred shares are made, specifically on the moment and the amount that must be considered in the calculation of the attributable profit in different situations; b) for the determination of diluted EPS, clarifications are made to better identify whether the effect of the financial instruments that gives rise to the potential ordinary shares is dilutive or anti-dilutive and, consequently, whether or not it should be considered in the determination of the diluted EPS; and c) it is specified that the shares that will be issued for the conversion of a forced conversion debt financial instrument classified as an equity instrument, under the provisions of MFRS C-12, must be included in the calculation of the basic EPS from the date in which the financial debt instrument was issued.

Conceptual Framework. The structure of the conceptual framework is modified to include in one MFRS the eight MFRS previously issued regarding the conceptual framework. Likewise, adaptation/clarifications were made related to the restructuring of hierarchy and the description of the qualitative characteristics of the financial statements with the definition of assets and liabilities, with aspects related to valuation issues, with related requirements to ensure that the financial statements are useful to users and with presentation bases in terms of the compensation and grouping of items in the financial statements.

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Improvements to MFRS 2023

MFRS B-11 "Disposal of Long-lived Assets and Discontinued Operations" and MFRS C-11 "Stockholders' equity". Incorporate the accounting treatment in the event that in a dividend distribution or equity reimbursement through long-lived assets there is a difference between the carrying amount of long-lived assets held to distribute to owners that will be used to settle such transaction and the liability recognized as of the date on which dividends or equity reimbursements are settle. Likewise, required disclosures derived from this transaction are specified.

MFRS B-15 "Foreign currency translation". Modifies the practical expedient to no convert financial statements from the recording currency into the functional currency, in order to make a precision and make it clearer that in the event that they do not have subsidiaries or parent companies they must also meet the requirement of not having users who require the financial statements considering the effects of the conversion to the functional currency.

Likewise, modifications were also made to the following MFRS, which do not generate accounting changes, consequently, no effective date is established. Those modifications imply only adjustments to the drafting and incorporation of certain concepts:

- B-10 "Inflation effects"
- C-2 "Investment in financial instruments"
- C-3 "Accounts receivable"
- C-4 "Inventory"
- D-6 "Capitalization of the comprehensive financing income (loss)"

Derived from the promulgation of the New Conceptual Framework in force as of January 1, 2023, a series of consequential changes were made throughout the particular regulations and the Glossary, both in indices, paragraphs and references.

MFRS 2022

MFRS C-15 "Impairment in the value of long-lived assets" Establishes the valuation, presentation and disclosure standards, highlighting the following, among others: a) new examples of evidence are added to assess whether there is impairment, b) the requirement to use a net selling price is changed to fair value less costs of disposal to carry out impairment tests; c) establishes the option of using estimates of future cash flows and a discount rate, in real terms and d) the calculation of impairment through the perpetuity value of intangible assets with indefinite useful lives is removed, modifying the impairment test.

Early adoption of this standard must be prospectively.

Improvements to MFRS 2022

MFRS B-7 "Business acquisitions". Incorporates the accounting treatment of business acquisitions among entities under common control, establishing the "book value" method as the appropriate method for the recognition of these transactions, except when a) the acquirer has non-controlling shareholders whose interests are affected by the acquisition, and/of b) the acquirer is listed on a stock exchange.

Bank of América México, S. A., Institución de Banca Múltiple

24 Pedregal Street, Floor 22, Mexico City, 11040

Notes to the Financial Statements

December 31, 2022

MFRS B-15 "Foreign currency translation". Confirms the practical expedient for not converting financial statements from the recording currency to the functional currency, provided they are financial statements exclusively for the Company's legal and tax purposes which a) are individual entities with no subsidiaries or parent company, or users that require complete financial statements prepared considering the effects of the conversion to functional currency, or b) are subsidiaries, associates or joint ventures with no users that require complete financial statements prepared considering the effects of the conversion to functional currency. (*)

MFRS D-3 "Employee benefits". Incorporates the procedure for the determination of the deferred ESPS and the incurred ESPS rate, when the entity considers the payment of ESPS will be at a rate lower than the current legal rate. (*)

Also, the following MFRS were modified, generating accounting changes and whose main modifications relate to the elimination of certain disclosure requirements.

- MFRS B-1 "Accounting changes and corrections of errors" (*)
- MFRS B-10 "Inflation effects" (*)
- MFRS B-17 "Determination of fair value" (*)
- MFRS C-6 "Property, plant and equipment" (*)

(*) Modifications originated by the improvements to these MFRS 2022 will come into force for the years beginning on January 1, 2022; early application is allowed for fiscal year 2021. Accounting changes that arise, if any, must be recognized through prospective application.

Modifications were also made to the MFRS, which do not generate accounting changes, consequently, no effective date is established. Those modifications imply only adjustments to the drafting and incorporation of certain concepts:

- MFRS B-10 "Inflation Effects" (**)
- MFRS B-15 "Foreign currency translation" (**)
- MFRS C-3 "Accounts receivable" (**)
- MFRS C-16 "Impairment of receivable financial instruments" (**)
- MFRS B-1 "Accounting changes and corrections of errors" (**)
- CIRCULAR 44 - Accounting treatment for Investment Units" is abrogated. (**)

(**) Modifications originated from improvements to these MFRS 2022 do not give place to accounting changes, consequently, it is not necessary to establish an effective date for these improvements.

Emilio Romano Mussali
Chief Executive Officer

Ernesto Ramos de la Fuente
Chief Financial Officer

Juan Ignacio Reynoso Echegollén
Controller

Felipe Tejeda Velasco
Director of Internal Audit