

**BBVA México, S. A.,
Institución de Banca Múltiple,
Grupo Financiero BBVA México
and subsidiaries**

(formerly BBVA Bancomer, S. A., Institución de Banca Múltiple,
Grupo Financiero BBVA Bancomer)

Consolidated Financial Statements

December 31, 2021 and 2020

(With Independent Auditors' Report)

(Translation from Spanish Language (Original))





Independent Auditors' Report

To the Stockholders and Board of Directors of

BBVA México, S. A., Institución de Banca Múltiple,

Grupo Financiero BBVA México

(formerly BBVA Bancomer, S. A., Institución de Banca Múltiple,

Grupo Financiero BBVA Bancomer):

Opinion

We have audited the consolidated financial statements of BBVA México, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA México and Subsidiaries (the Bank), which comprise the consolidated balance sheets as at December 31, 2021 and 2020, the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of the Bank, have been prepared, in all material respects, in accordance with the Accounting Criteria for Credit Institutions in Mexico issued by the National Banking and Securities Commission (the Commission).

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 Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 the audit of the consolidated financial statements of the current period. These matters have been addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not express a separate opinion on those matters.

(Continued)



Allowance for loan losses	
See note 11 to the consolidated financial statements.	
Key audit matter	How the key audit matter was addressed in our audit
<p>Allowance for loan losses of the commercial credit portfolio for business activity involves significant judgments for the evaluation of the credit quality of the debtors, considering the various factors established in the Bank's internal methodology approved by the Commission for the rating process of said credit portfolio, such as the allocation of the collateral, guarantor's rating, assignment of "rating" for null values and impairment flag in applicable cases. In addition, the allowance for loan losses of the mortgage and credit card portfolio calculated based on the Bank's internal methodologies authorized by the Commission, considers the reliability in the documentation and the updating of the information that serves of input for the calculation of such estimate.</p> <p>Therefore, we have determined that the allowance for loan losses that is determined based on internal methodologies authorized by the Commission, as a key audit matter.</p>	<p>The audit procedures applied to the determination of the allowance for loan losses determined by Management and its effect on the results of the year, included among others:</p> <ul style="list-style-type: none"> - tests of design and implementation of key internal controls and test of operating effectiveness over selective samples. - evaluation through selective tests of both the inputs used as well as the calculation for credit portfolios based on the internal methodology authorized by the Commission, with the involvement of our credit risk specialists. - through selective tests, substantive test of details procedures were carried out, mainly aimed at recalculating the allowance for loan losses of selected items.



Derivative financial instruments not listed on recognized markets with complex valuation models	
See note 8 to the consolidated financial statements.	
Key audit matter	How the key audit matter was addressed in our audit
<p>The determination of the fair value at the date of the consolidated balance sheet of certain derivative financial instruments not quoted on organized markets is carried out through the use of valuation techniques that involve significant Management’s judgments, mainly when the use of inputs obtained from various sources or of unobservable market data and complex valuation models, including those models related to embedded derivative financial instruments from structured notes.</p> <p>Therefore, we have determined the valuation of these financial instruments as a key audit matter.</p>	<p>As part of our audit procedures to evaluate the design and implementation of the selected controls, we obtained evidence of the approval by the Bank’s Risk Committee of the valuation models for derivative financial instruments used by Management and we carried out tests of operating effectiveness on load oriented controls over prices and curves in the systems processing transactions agreed with derivative financial instruments. Also, through selective tests and through the involvement of our specialists, we assess the reasonableness of these models and the inputs used. Additionally, through selective tests, we assess the determination of the fair value of derivative products that use complex valuation models.</p>

Risks associated to technology (IT)	
Key audit matter	How the key audit matter was addressed in our audit
<p>The Bank operates through a complex IT environment with different processing centers.</p> <p>Procedures for automated accounting records and IT environment controls, which include government, general controls on development and changes of programs, access to programs and data, and operations, must be designed and operated effectively to ensure integrity and accuracy in the issuance of financial information.</p> <p>We identify IT systems and controls over financial reporting as a key audit matter because the accounting systems and financial reports of the Bank depend primarily on these systems and the different environments of general controls for the different application systems.</p>	<p>According to our audit methodology and through our IT specialists, we evaluated the design and implementation of the controls over the key systems that process the Bank’s financial information in two areas: (i) general IT controls where we evaluate existing controls on the various technological platforms relating to user access to applications and data, management of changes in applications, management of systems development, as well as the management of operations in the production environment; and (ii) automatic controls on key processes of our audit, identifying the main information systems, of which we have analyzed the vulnerabilities related to the integrity, accuracy and availability of the information and we have identified and evaluated the operational efficiency of the implemented IT controls and the related compensatory controls, where appropriate, that mitigate such risks.</p>



Other information

Management is responsible for the other information. The other information comprise the information included in the Annual Report for the year ended December 31, 2021, which must be reported to the Commission and the Mexican Stock Exchange (the Annual Report), but does not include the consolidated financial statements and our opinion. The Annual Report is estimated to be available after the date of this report from the auditors.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any type of assurance conclusion about it.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when it is available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or if it seems to be materially incorrect.

When we read the Annual Report, if we conclude that there is a material error in that other information, we are required to report that fact to those responsible for the government of the entity.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the Accounting Criteria for Financial Credit Institutions in Mexico established by the Banking Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group's audit. We remain solely responsible for our audit opinion.

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.

We also provide to those charged with governance a statement that we have complied with the applicable ethical requirements regarding independence, and we communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or the safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore, consequently, the key audit matters. We describe these matters in our auditor's report unless law or regulatory provisions 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.

KPMG Cárdenas Dosal, S. C.

SIGNATURE

Hermes Castañón Guzmán

México City, February 28, 2022



BBVA México, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA México and Subsidiaries
(formerly BBVA Bancomer, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer)

Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated balance sheets

December 31, 2021 and 2020

(Millions of Mexican pesos)

Assets	2021	2020	Liabilities and stockholders' equity	2021	2020
Cash and cash equivalents (note 4)	\$ 301,088	223,219	Deposits funding (note 18):		
Margin accounts (note 5)	8,054	32,261	Demand deposits	\$ 1,242,299	1,084,227
Investment securities (note 6):			Time deposits:		
Trading	289,731	281,020	General public	220,451	229,974
Available-for-sale	221,891	211,788	Money market	4,654	13,862
Held-to-maturity	72,675	81,230	Debt securities issued	87,984	84,052
	584,297	574,938	Global deposit account without movements	5,403	4,956
Debtors on repurchase/resale agreements (note 7)	37	15,123		1,560,791	1,417,071
Derivatives (note 8):			Banks and other borrowings (note 19):		
Trading	133,914	197,606	Short-term	5,778	6,985
Hedging	12,788	16,321	Long-term	33,655	10,876
	146,702	213,927		39,433	17,861
Valuation adjustments related to financial assets hedged	475	2,488	Creditors on repurchase/resale agreements (note 7)	173,973	263,716
Current loan portfolio (note 9):			Securities lending	2	5
Commercial loans:			Sold/pledged collaterals (note 7):		
Business and commercial activities	514,920	488,878	Repurchase/resale agreements	9,823	-
Financial institutions	24,693	28,079	Securities lending	42,918	63,841
Government entities	172,608	161,615		52,741	63,841
	712,221	678,572	Derivatives (note 8):		
Consumer loans	303,459	281,968	Trading	152,259	210,971
Residential mortgages:			Hedging	6,366	12,870
Medium class and residential	267,346	241,968		158,625	223,841
Low income housing loans	5,819	6,941	Valuation adjustments related to financial liabilities hedged	2,947	7,915
	273,165	248,909	Other accounts payable:		
Total current loan portfolio	1,288,845	1,209,449	Creditors on margin accounts	-	1,179
Past due loan portfolio (note 9):			Income tax payable (note 23)	5,646	-
Commercial loans:			Employee statutory profit sharing (ESPS) payable	2,582	59
Business and commercial	7,270	11,983	Creditors on settlement of transactions	37,561	55,312
Consumer loans	8,138	16,147	Creditors on cash received as collateral (note 8)	16,981	19,762
Residential mortgages:			Sundry creditors and other accounts payable	39,546	37,353
Medium class and residential	6,981	8,824		102,316	113,665
Low income housing loans	310	530	Subordinated bonds issued (note 21)	72,055	85,181
	7,291	9,354	Deferred credits and advance payments	7,914	7,540
Total past due loan portfolio	22,699	37,484	Total liabilities	2,170,797	2,200,636
Loan portfolio	1,311,544	1,246,933	Stockholders' equity (note 24):		
Less:			Paid-in capital:		
Allowance for loan losses (note 11)	(34,810)	(48,236)	Capital stock	24,143	24,143
Total loan portfolio, net	1,276,734	1,198,697	Additional paid-in capital	15,860	15,860
Other accounts receivable, net (note 13)	64,947	106,527		40,003	40,003
Foreclosed assets, net (note 14)	989	1,317	Earned capital:		
Property, furniture and equipment, net (note 15)	35,956	36,293	Statutory reserves	6,901	6,901
Permanent investments (note 16)	1,086	1,135	Retained earnings	185,095	160,008
Deferred income tax and ESPS, net (note 23)	26,157	22,416	Unrealized valuation of available-for-sale securities (note 6)	(5,898)	2,820
Other assets (note 17):			Unrealized valuation of cash flow hedge derivatives	(788)	(96)
Deferred charges, prepayments and intangibles	6,943	14,529	Cumulative translation effect	-	440
			Remeasurements of employees benefit	(2,956)	(4,046)
			Net income	60,260	36,167
				242,614	202,194
Total assets	\$ 2,453,465	2,442,870	Total controlling interest	282,617	242,197
			Non-controlling interest	51	37
			Total stockholders' equity	282,668	242,234
			Commitments and contingent liabilities (note 35)		
			Total liabilities and stockholders' equity	\$ 2,453,465	2,442,870

(Continued)



BBVA México, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA México and Subsidiaries
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Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated balance sheets, (continued)

December 31, 2021 and 2020

(Millions of Mexican pesos)

Memorandum accounts	2021	2020
Contingent assets and liabilities	\$ 1,157	805
Credit commitments (note 9)	<u>654,061</u>	<u>638,851</u>
Assets in trust or under mandate:		
In trust	\$ 493,557	429,883
Under mandate	<u>196</u>	<u>223</u>
	<u>\$ 493,753</u>	<u>430,106</u>
Assets in custody or under management	\$ 228,239	203,467
Collaterals received by the Institution (note 7)	79,717	131,586
Sold/pledged collaterals received by the institution (note 7)	66,941	106,906
Investment banking operations on behalf of third parties, net	1,939,897	1,604,841
Uncollected interest accrued on non-performing loans	2,377	3,524
Other memorandum accounts	<u>3,662,642</u>	<u>3,336,242</u>
Historical stockholders' equity	\$ <u>4,248</u>	<u>4,248</u>

See accompanying notes to the consolidated financial statements.

"These consolidated balance sheets were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101, and 102 of the Law for Credit Institutions, which are of general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the transactions carried out by the Institution through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

These consolidated balance sheets were approved by the Board of Directors under the responsibility of the following officers."

SIGNATURE

Eduardo Osuna Osuna
General Director

SIGNATURE

Adolfo Arcos González
General Director of Internal Audit

SIGNATURE

Luis Ignacio De la Luz Dávalos
General Director of Finance

SIGNATURE

Ana Luisa Miriam Ordorica Amezcua
Director of Corporate Accounting

<https://investors.bbva.mx> / www.cnbv.gob.mx



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Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated statements of income

Years ended December 31, 2021 and 2020

(Millions of Mexican pesos)

	<u>2021</u>	<u>2020</u>
Interest income (note 28)	\$ 176,373	181,176
Interest expense (note 28)	<u>(42,066)</u>	<u>(55,648)</u>
Net interest income	134,307	125,528
Allowance for loan losses (note 11)	<u>(26,382)</u>	<u>(47,090)</u>
Net interest income adjusted for allowance for loan losses	107,925	78,438
Commissions and fee income (note 29)	50,593	44,096
Commissions and fee expense (note 29)	(20,645)	(16,593)
Financial intermediation income (note 30)	8,100	8,433
Other operating income	2,153	1,063
Administrative and promotional expenses	<u>(66,035)</u>	<u>(65,037)</u>
Net operating income	82,091	50,400
Equity in the income of unconsolidated subsidiaries and associated companies (note 16)	<u>88</u>	<u>39</u>
Income before income tax	82,179	50,439
Current income tax (note 23)	(17,557)	(16,777)
Deferred income tax, net (note 23)	<u>(4,348)</u>	<u>2,504</u>
Income before non-controlling interest	60,274	36,166
Non-controlling interest	<u>(14)</u>	<u>1</u>
Net income	\$ <u><u>60,260</u></u>	<u><u>36,167</u></u>

See accompanying notes to consolidated financial statements.

"These consolidated statements of income were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, it reflects the revenues and disbursements relating to the transactions carried out by the Institution for the years ended noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

These consolidated statements of income were approved by the Board of Directors under the responsibility of the following officers."

SIGNATURE

Eduardo Osuna Osuna
General Director

SIGNATURE

Adolfo Arcos González
General Director of Internal Audit

SIGNATURE

Luis Ignacio De la Luz Dávalos
General Director of Finance

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Ana Luisa Miriam Ordorica Amezcua
Director of Corporate Accounting



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Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated statements of changes in stockholders' equity

Years ended December 31, 2021 and 2020

(Millions of Mexican pesos)

	Paid-in capital			Earned capital								
	Capital stock	Additional paid-in capital	Statutory reserves	Retained earnings	Unrealized valuation of available-for-sale securities	Unrealized valuation of cash flow hedge derivatives	Cumulative translation effect	Remeasurements of employees' defined benefit plans	Net income	Majority stockholders' equity	Non controlling interest	Total stockholders' equity
Balances as of December 31, 2019	\$ 24,143	15,860	6,901	121,029	(84)	(113)	440	(2,602)	49,254	214,828	38	214,866
Changes resulting from stockholders' resolutions:												
Appropriation of prior year's net income	-	-	-	49,254	-	-	-	-	(49,254)	-	-	-
Dividends declared (note 24 (a))	-	-	-	(10,275)	-	-	-	-	-	(10,275)	-	(10,275)
Total	-	-	-	38,979	-	-	-	-	(49,254)	(10,275)	-	(10,275)
Changes related to the recognition of comprehensive income (note 2 (e)):												
Net income	-	-	-	-	-	-	-	-	36,167	36,167	(1)	36,166
Valuation effects of available-for-sale securities	-	-	-	-	2,904	-	-	-	-	2,904	-	2,904
Unrealized valuation of cash flow hedge derivatives	-	-	-	-	-	17	-	-	-	17	-	17
Remeasurements of employees' defined benefit plans	-	-	-	-	-	-	-	(1,444)	-	(1,444)	-	(1,444)
Total	-	-	-	-	2,904	17	-	(1,444)	36,167	37,644	(1)	37,643
Balances as of December 31, 2020	24,143	15,860	6,901	160,008	2,820	(96)	440	(4,046)	36,167	242,197	37	242,234
Changes resulting from stockholders' resolutions:												
Appropriation of prior year's net income	-	-	-	36,167	-	-	-	-	(36,167)	-	-	-
Dividends declared (note 24 (a))	-	-	-	(11,080)	-	-	-	-	-	(11,080)	-	(11,080)
Total	-	-	-	25,087	-	-	-	-	(36,167)	(11,080)	-	(11,080)
Changes related to the recognition of comprehensive income (note 2 (e)):												
Net income	-	-	-	-	-	-	-	-	60,260	60,260	14	60,274
Valuation effects of available-for-sale securities	-	-	-	-	(8,718)	-	-	-	-	(8,718)	-	(8,718)
Unrealized valuation of cash flow hedge derivatives	-	-	-	-	-	(692)	-	-	-	(692)	-	(692)
Cumulative translation effect	-	-	-	-	-	-	(440)	-	-	(440)	-	(440)
Remeasurements of employees' defined benefit plans	-	-	-	-	-	-	-	1,090	-	1,090	-	1,090
Total	-	-	-	-	(8,718)	(692)	(440)	1,090	60,260	51,500	14	51,514
Balances as of December 31, 2021	\$ 24,143	15,860	6,901	185,095	(5,898)	(788)	-	(2,956)	60,260	282,617	51	282,668

See accompanying notes to consolidated financial statements.

"These consolidated statements of changes in stockholders' equity were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101, and 102 of the Law for Credit Institutions, which are of general and mandatory nature and have been applied on a consistent basis. Accordingly, it reflects all the stockholders' equity account entries relating to the transactions carried out by the Institution for the years ended noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

These consolidated statements of changes in stockholders' equity were approved by the Board of Directors under the responsibility of the following officers."

SIGNATURE

Eduardo Osuna Osuna
General Director

SIGNATURE

Luis Ignacio De la Luz Dávalos
General Director of Finance

SIGNATURE

Adolfo Arcos González
General Director of Internal Audit

SIGNATURE

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Director of Corporate Accounting



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Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated statements of cash flows

Years ended December 31, 2021 and 2020

(Millions of Mexican pesos)

	<u>2021</u>	<u>2020</u>
Net income	\$ 60,260	36,167
Items not requiring cash flows:		
Net impairment effect from investment activities	125	351
Amortization of installation costs	1,855	1,817
Depreciation of property, furniture and equipment	2,355	2,345
Amortization of intangible assets	1,702	1,669
Provisions	4,967	(2,323)
Recycling of cumulative translation effect	(440)	-
Current and deferred income tax	21,905	14,273
Equity in income of non-consolidated subsidiaries and associated companies	(88)	(39)
Non-controlling interest	14	(1)
	<u>92,655</u>	<u>54,259</u>
Operating activities:		
Change in margin accounts	24,328	(13,441)
Change in investment securities	(20,799)	(105,547)
Change in debtors on repurchase/resale agreements	15,086	(7,080)
Change in derivatives (asset)	63,692	(88,229)
Change in loan portfolio, net	(73,380)	17,494
Change in benefits receivable on securitization transactions	-	25
Change in foreclosed assets, net	328	122
Change in other operating assets, net	37,554	(11,681)
Change in deposits funding	136,973	139,949
Change in bank and other borrowings	21,464	(4,236)
Change in securities lending	(3)	4
Change in creditors on repurchase/resale agreements	(89,743)	36,855
Change in sold/pledged collaterals	(11,100)	16,264
Change in derivatives (liabilities)	(58,712)	83,058
Change in subordinated bonds issued with liabilities characteristics	(15,230)	(14,349)
Change in other operating liabilities	(19,422)	8,194
Change in hedging instruments (from hedged items related to operating activities)	(7,005)	2,606
Payment of income taxes	<u>(6,053)</u>	<u>(29,008)</u>
Net cash provided by operating activities	<u>90,633</u>	<u>85,259</u>
Investment activities:		
Proceeds from property, furniture and equipment disposals	61	27
Payments for property, furniture and equipment acquisitions	(4,050)	(2,361)
Proceeds from subsidiaries and associates sold	136	3
Payments for increase in participation of subsidiaries and associates	-	(262)
Proceeds from cash dividends	1	1
Payments on acquisition of intangible assets	<u>(1,580)</u>	<u>(1,603)</u>
Net cash flows used in investing activities	<u>(5,432)</u>	<u>(4,195)</u>
Net cash flows used in financing activities - Payment of cash for dividends	<u>(11,080)</u>	<u>(10,275)</u>
Net increase (decrease) in cash and cash equivalents	74,121	70,789
Effects from cash and cash equivalents value changes	3,748	4,058
Cash and cash equivalents at the beginning of the year	<u>223,219</u>	<u>148,372</u>
Cash and cash equivalents at the end of the year	\$ <u>301,088</u>	<u>223,219</u>

See accompanying notes to consolidated financial statements.

"These consolidated statements of cash flows were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, it reflects cash inflows and outflows relating to the transactions carried out by the Institution for the years ended noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

These consolidated statements of cash flows were approved by the Board of Directors under the responsibility of the following officers."

SIGNATURE

Eduardo Osuna Osuna
General Director

SIGNATURE

Adolfo Arcos González
General Director of Internal Audit

SIGNATURE

Luis Ignacio De la Luz Dávalos
General Director of Finance

SIGNATURE

Ana Luisa Miriam Ordorica Amezcua
Director of Corporate Accounting



BBVA México, S. A.,
Institución de Banca Múltiple, Grupo Financiero BBVA México
and subsidiaries

(formerly BBVA Bancomer, S. A., Institución de Banca Múltiple,
Grupo Financiero BBVA Bancomer)

Notes to the consolidated financial statements

Years ended December 31, 2021 and 2020
(Millions of Mexican pesos, except otherwise noted)

(1) Activity and operating regulatory environment

BBVA México, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA México and subsidiaries (formerly BBVA Bancomer, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and subsidiaries) (the “Institution” or the “Bank”) is a direct subsidiary of Grupo Financiero BBVA México, S. A. de C. V. (formerly Grupo Financiero BBVA Bancomer, S. A. de C. V.) (the “Financial Group”) and indirect subsidiary of Banco Bilbao Vizcaya Argentaria, S. A. (“BBVA”), which is governed, among others, by the Banking Law (*Ley de Instituciones de Crédito*) (the “Banking Law”), and the General Rules applicable to Banking Institutions (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*) (the “Banking Regulations”) which regulates any matters under the supervision of the National Banking and Securities Commission (the “Commission”), and focuses, among others, on accepting deposits, receiving and granting loans, transactions with securities and derivative financial instruments as well as the execution of trust agreements. It has its address at Avenida Paseo de la Reforma No. 510, Colonia Juárez, Cuauhtémoc, Mexico City, C.P. 06600.

The powers vested in the Commission as the entity regulating credit institutions include reviewing the Bank’s financial information and ordering any modifications thereto, if any.

The main regulatory aspects require that the Multiple Banking Institutions maintain a minimum capitalization ratio in relation to market, credit and operational risks, compliance with certain acceptance limits of deposits, obligations and other types of funding that may be denominated in foreign currency, as well as the establishment of minimum limits of paid capital and capital reserves, with which the Institution satisfactorily complies.

Up to June 30, 2021, the Institution had no employees, except for the Chief Executive Officer, so its management was carried out mainly by BBVA Operadora México, S. A. de C. V. (formerly BBVA Bancomer Operadora, S. A. de C. V.) and BBVA Servicios Administrativos México, S. A. de C. V. de C.V. (formerly BBVA Bancomer Servicios Administrativos, S. A. de C. V.) (related companies), who provided administrative services under an agreement signed by the parties (note 22). On April 23, 2021, a decree was published amending, adding and repealing several provisions of the Federal Labor Law, the Social Security Law, the Law of the Institute of the National Housing Fund for Workers, the Federal Fiscal Code, the Income Tax Law and the Value Added Tax Law, in matters of labor subcontracting or outsourcing; said decree covers different labor and tax matters, consequently, as of July 1, 2021, the Institution received the transfer of employees that previously provided services through BBVA Operadora México, S. A. de C. V. and BBVA Servicios Administrativos México, S. A. de C. V., as well as the assets and labor liabilities related to said employees.

The Extraordinary Shareholders’ Meeting of the Group, on August 10, 2020, resolved to change the corporate name of the Institution to BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México, a name that became effective as September 20, 2021, date on which the necessary regulatory and tax requirements were met.

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(2) Authorization and basis of presentation

Authorization

On February 25, 2022, Eduardo Osuna Osuna, General Director, Luis Ignacio de la Luz Dávalos, Chief Financial Officer, Adolfo Arcos González, Head of Internal Audit, and Ana Luisa Miriam Ordorica Amezcua, Head of Corporate Accounting, authorized the issuance of the accompanying consolidated financial statements and the notes thereto (hereinafter, the “financial statements”).

The Institution’s shareholders and the Commission are authorized to amend the financial statements after their issuance. The accompanying 2021 financial statements will be submitted to the next Shareholders’ Meeting for approval.

Basis of presentation

(a) Declaration of compliance

The Bank’s financial statements have been prepared in accordance with the accounting criteria for Banking Institutions in Mexico (the “Accounting Criteria”) established by the Commission. The Commission is responsible for inspecting and supervising financial groups and reviewing their financial information.

The Accounting criteria states that the Commission shall issue specific rules for specialized transactions and indicates that without specific criteria of the Commission and, in a broader context, if there are no criteria established in the Mexican Financial Reporting Standards (for its acronym in Spanish “NIF” *Normas de Información Financiera*) (Mexican FRS) issued by the Mexican Board of Financial Reporting Standards, (Consejo Mexicano de Normas de Información Financiera, A.C.) (for its acronym in Spanish “CINIF”), any absence shall be supplied as provided in Mexican FRS A-8. Any supplementary standard that belongs to any other regulatory framework may only be used if the International Financial Reporting Standards (IFRS) referred to in Mexican FRS A-8 do not establish an accounting criterion, provided that all requirements provided in the Mexican FRS are met. The hierarchy should follow the next order: generally accepted accounting principles in the United States of America (US GAAP) and any accounting standard that is part of a formal and recognized set of standards, provided that the requirements of the Commission’s criterion A-4 are met.

(b) Use of judgment and estimates

The preparation of the financial statements requires Management to make several estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the period.

Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the next page.

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- Note 6 – Investments in securities: Securities market values with no observable market.
- Note 8 – Valuation of derivative financial instruments: key assumptions to determine market value, especially those complex derivatives or with no active market.
- Notes 11 and 13 – Determination of allowance for loan losses and recoverability of accounts receivable: assumptions and inputs used in its determination.
- Note 15 – Valuation of property, furniture and equipment. Impairment tests of fixed assets values, including the key assumptions for determining the recoverable amount of those assets.
- Note 20 – Labor obligations: key actuarial assumptions;
- Note 23 – Recognition of deferred tax assets: availability of future taxable income, and the realization of deferred tax assets.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Note 6 – Investments in securities: Securities market values without an observable market.
- Note 8 – Valuation of derivative financial instruments: key assumptions to determine market value, especially those complex derivatives or without an active market.
- Notes 11 and 13 – Determination of allowance for loan losses and recoverability of accounts receivable: assumptions and inputs used in its determination.
- Note 15 – Valuation of property, furniture and equipment- Impairment tests of fixed assets values, including the key assumptions for determining the recoverable amount of those assets.
- Note 20 – Measurement of obligations for defined benefits: key actuarial assumptions;
- Note 23 – Recognition of deferred tax assets: availability of future taxable income, and the realization of deferred taxes assets.

(c) Functional and reporting currency-

The aforementioned financial statements are presented in the Bank's reporting currency, Mexican pesos, which is the same as its recording and functional currency.

For disclosure purposes in the notes to the financial statements, any reference to "pesos", "\$" or "MXN" means millions of Mexican pesos, and references to "US dollars" or "USD" means millions of dollars of the United States of America.

(d) Financial assets and financial liabilities recognition on trade date-

Assets and liabilities related to the purchase and sale of foreign currencies, investment securities, repurchase/resale agreements, securities lending and derivative financial instruments are recognized in the financial statements on the trade date, regardless of the settlement date.

(e) Comprehensive income-

This caption consists of the net result of the year plus other items that represent a gain or loss in the same year, which, according to the accounting practices followed by the Bank, are presented directly in the stockholders' equity without the requirement to present a statement of comprehensive income, such as the gain or loss from valuation of securities available for sale, the gain or loss from valuation of cash flow hedge instruments and the cumulative translation effect, as well as the remeasurement of employee defined benefits plans.

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(3) Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the Institution.

(a) Recognition of the effects of inflation-

The Bank's financial statements were prepared in accordance with the Accounting Criteria, which include the recognition of the effects of inflation on financial information through December 31, 2007, as the Bank operates in a non-inflationary environment as from 2008 (cumulative inflation over the last three years less than 26%), using for such purpose the investment unit (for its acronym in Spanish "UDI"), a unit used to measure inflation and whose value is determined by the Central Bank.

Percentages of inflation measured through the value of the UDI for the years ended on December 31, 2021, 2020 and 2019 were 7.61%, 3.23% and 2.77%, respectively; therefore, annual accrued inflation of the last three years before December 31, 2021, 2020 and 2019 was 14.16%, 11.31% and 15.03%, respectively, the reason why the economic environment for both years qualifies as non-inflationary. As mentioned above, the cumulative effects of the inflation until December 31, 2007 are recorded in the consolidated balance sheet as of December 31, 2021 and 2020.

(b) Basis of consolidation-

The accompanying financial statements include the Institution's financial statements, and the subsidiaries it controls and the consolidated trusts arising from securitization transactions. All significant inter-company balances and transactions have been eliminated.

The subsidiaries consolidated with the Institution as of December 31, 2021 and 2020, are detailed as follows:

<u>Company</u>	<u>Participation</u>	<u>Location</u>	<u>Activity</u>
-Opción Volcán, S. A. de C. V.	99.99%	México	Banking real estate.
-Fideicomiso No. 29764-8, Socio Liquidador de Operaciones Financieras Derivadas Integral	100.00%	México	Compensation and settlement of futures contracts on behalf of third parties and by its own.
-Adquira México, S. A. de C. V.	50.00%	México	Establish, manage, commercialize and operate a shopping club, and markets via electronic means.
-Financiera Ayudamos, S. A. de C. V., SOFOM, E.R. (the Company) ⁽¹⁾	99.99%	México	Regular and professional credit granting under the terms of Article 87-B of the General Law of Auxiliary Credit Organizations.
-Fideicomiso Irrevocable para la emisión de Certificados Bursátiles Número 881	100.00%	México	Issuance of certificates through the Mexican Stock Exchange backed by residential mortgages.
-Fideicomiso Irrevocable para la emisión de Certificados Bursátiles Número 989 (extinct on September 25, 2020) ⁽²⁾	100.00%	México	Issuance of certificates through the Mexican Stock Exchange backed by mortgages loans.
-Fideicomisos Empresariales Irrevocables de Administración y pago No. F/1859 and No F/1860	100.00%	México	Financing for the acquisition of the Modular Drilling Equipment, to subsequently grant it in a financial lease with an option to purchase to PEMEX exploration and production.

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- (1) At a General Extraordinary Shareholders' Meeting held on November 1, 2019, it was resolved to approve the early dissolution and liquidation of this Company, effective on that same date, since as of September 2018, the company suspended the placement of its credit products to the public and initiated the orderly closing of operations and branches, thus the financial statements as of December 31, 2021 and 2020 and for the years ended on said dates have not been prepared on the basis of going concern and therefore, these financial statements have been prepared in accordance with the applicable Accounting Criteria, determining estimated values from the disposal or liquidation of all net assets. Until the relevant liquidation procedures before the Commission are completed, the Company shall continue to comply with the Banking Regulation applicable to regulated multi-purpose financial corporations (SOFOMs).
As of December 31, 2021 and 2020, the assets amount to \$109 and \$113, and the stockholders' equity to \$108 and \$111, respectively. For the years ended December 31, 2021 and 2020, the net income and loss amounted to \$(4) and \$6, respectively.
- (2) Trust 989 was terminated during 2020. The loan portfolio corresponding to this Trust was already included in the consolidated financial statements of the Institution, so there was no accounting effect derived from said termination, see note 12.

(c) Offsetting financial assets and financial liabilities-

Financial assets and liabilities are subject to offsetting so that the consolidated balance sheet shows the debit or credit balance, as applicable, if and only if, there is a contractual right to offset the amounts and the intention to settle the net amount, or to realize the asset and write-off the liability simultaneously.

(d) Cash and cash equivalents-

Cash and cash equivalents consist of cash on hand, deposits with Mexican and foreign banks in pesos and dollars, as well as 24, 48, 72 and 96 hour foreign currency purchase and sale transactions. It also includes bank borrowings with original maturities of up to three days ("Call Money"), and monetary regulation deposits at the Central Bank (these latter deposits considered of restricted availability are formed pursuant to Official Circular 3/2012 "Provisions applicable to transactions of financial institutions and the rural financial entity", issued by the Central Bank, with the purpose of regulating the liquidity of the money market, which accrue interest at the banking funding rate), remittances in transit and auctions carried out by the Central Bank.

Cash and cash equivalents are recognized at par value. For balances in dollars, the exchange rate is the one published by the Central Bank on the day of translation in accordance with the rules issued by the Commission. As of the date of the financial statements, gains or losses due to the translation effect and accrued interest income are recognized in the results of the year.

The foreign exchange currencies acquired and agreed to be settled in 24, 48, 72 and 96 hours, are recognized as restricted cash (foreign currency to receive), while the currencies sold are recorded as cash outflow (foreign currency to deliver). The rights and obligations for the sale and purchase of foreign exchange at 24, 48, 72 and 96 hours are recorded in clearing accounts under the caption "Other accounts receivable, net" and "Creditors on settlement of transactions", respectively.

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The amount of overdrafts in checking accounts, the offsetting balance of foreign currency to be delivered exceeding the foreign currency to be received or of some other concept in cash and cash equivalents with a credit balance, are presented under the caption “Sundry creditors and other accounts payable”.

(e) Margin accounts-

Margin accounts are made up of the collateral pledged in cash (and in other assets equivalent to cash) required from entities entering into transactions with derivative financial instruments carried out in organized markets exchanges, recorded at par value.

For margin accounts assigned to the clearing house different from cash, as would be the case of debt instruments or shares, where the clearing house has the right to sell or pledge the financial assets which make up such margin accounts, the financial asset pledged is presented as restricted, and the valuation and disclosure standards are followed in accordance with the respective accounting treatment according to its nature.

The returns and fees that affect margin accounts, other than the fluctuations in the prices of derivatives, are recognized in the results of the year as accrued under “Interest income” and “Commissions and fees paid”, respectively. Partial or total settlements deposited or withdrawn by the clearinghouse due to fluctuations in the prices of derivatives are recognized under “Margin accounts”, affecting as a counterpart a specific account that may be debtor or creditor, as appropriate, and that represents an advance received, or a financing granted by the clearinghouse and that will reflect the effects of the valuation of the derivatives prior to settlement.

Margin accounts are intended to comply with the obligations associated with transactions involving financial derivatives performed in organized markets and stock exchanges and refer to the initial margin, contributions and subsequent disbursements made during the effective term of the respective contracts.

(f) Investment securities-

Investment securities consist of government securities, bank promissory notes, and other debt securities listed or not in recognized markets, which are classified using the categories shown below, based on the intention of management of the Bank on their ownership.

- *Trading securities-*

Trading securities are those debt securities and equity shares in which the Institution invests to take advantage of short-term market fluctuations. The transaction costs for the acquisition of the securities are recognized in results of the year on the acquisition date. They are initially accounted at acquisition cost, which is equivalent to their fair value, and then at fair value using prices provided by an independent price vendor, whose valuation effect is included in the consolidated statement of income under “Financial intermediation income”.

- *Securities available-for-sale-*

Consist of securities acquired with an intention other than obtaining gains from trading them on the market or holding them to maturity. These securities are measured in the same manner as “Trading securities”, with unrealized gains or losses valuation recognized in stockholders’ equity net of deferred taxes, which is recycled in earnings at the time of sale.

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- *Securities held to maturity-*

Securities held to maturity are debt instruments with fixed or determinable payments or stated maturity, acquired with both the intent and the capacity of holding them to maturity. These instruments are accounted for using amortized cost, thus affecting the results of the year based on accrued interest and the discount or markup received or paid for their acquisition according to the effective interest method.

The Bank determines the increase or decrease on fair value using prices provided by a price vendor, who uses different market factors in its determination.

Cash dividends of equity shares are recognized in the results of the year in the same period in which the right to receive the related payment is generated.

- *Transfers between categories-*

Transfers from the category of "Held-to-maturity" to "Available-for-sale" securities, are permissible only when there is no intention or ability to hold them until maturity; the valuation result corresponding to the transfer date is recognized in stockholders' equity. Reclassifications from any category to "Held-to-maturity securities" and from "Trading securities" to "Available-for-sale", can be done with the Commission approval.

During the years ended December 31, 2021 and 2020, there were no transfers between categories.

- *Impairment-*

The Bank must assess whether there is objective evidence regarding the impairment of a security at the consolidated balance sheet date. A security is only considered to be impaired and, accordingly, an impairment loss is only incurred when there is objective evidence of this impairment as a result of one or more events which occurred after its initial recognition, which affected estimated future cash flows and can be reliably determined.

As of December 31, 2021 and 2020, the Institution's management has not identified objective evidence of impairment of any securities.

- *Value date transactions-*

Securities purchased with a settlement date of a maximum of four working days after trade date, are recorded as restricted securities, while securities sold are recorded as securities to deliver reducing the investment securities position. The corresponding debit or credit is made to an asset or liability clearing account, as it corresponds.

When the amount of the securities to deliver exceeds the proprietary position of the same type of security (government, bank, equities and other debt securities), the amount is shown as a liability under "Assigned values to be settled".



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(g) Repurchase/resale agreements-

Repurchase agreements are recorded as follows:

The repurchase/resale agreements that do not comply with the terms of C-1 "Recognition and derecognition of financial assets", are treated as collateralized financing transactions, which reflects the economic substance of those transactions. This treatment is adopted regardless of whether it is a "cash oriented" or "securities-oriented" repurchase/resale agreement.

– *Acting as a seller on resale agreements-*

On the contract date of the repurchase/resale agreement, the Institution acting as seller, either cash entry is recognized, or a debit clearing account is created, as well as a payable account initially measured at the agreed price, which represents the obligation to repay said cash to the buyer. The payable account is subsequently valued during the term of the repurchase/resale agreement at its amortized cost through the recognition of interest per repurchase/resale agreement according to the effective interest method in the results of the year.

In relation to the collateral granted, the Institution reclassifies the financial asset in its consolidated balance sheet as restricted, being valued according to the valuation, presentation and disclosure accounting criteria, until the maturity of the repurchase/resale agreement.

– *Acting as a buyer on repurchase agreements-*

When the Institution acts as a buyer, on the date of contracting the repurchase agreement transaction, it recognizes the outflow of cash or a creditor settlement account, recording an account receivable initially measured at the agreed price, which represents the right to recover the cash delivered. The account receivable is valued later during life of the repurchase agreement at amortized cost through the recognition of the effective interest method in the results of the year.

In relation to the collateral received in repurchase transactions other than cash, it is recognized in memorandum accounts, by following the guidelines on custody transactions provided in accounting criterion B-9, "Custody and Administration of Assets" until the maturity date of the repurchase/resale agreement.

When the buyer sells the collateral or provides it as a guarantee, the proceeds from the transaction are recognized, as well as an account payable for the obligation to repay the collateral to the selling party (measured initially at the price agreed), which is valued at fair value in case of a sale, or, if it is given as collateral in another repurchase transaction, at amortized cost, (any spread between the price received and the value of the account payable is recognized in results of the year), the control of such sold or pledged collateral is performed in memorandum accounts, by applying for valuation purposes the standards for custody transactions provided in accounting criterion B-9.

Furthermore, if the buyer then becomes a seller for another repurchase transaction using the same collateral received as guarantee for the initial transaction, the repurchase interest agreed in the second transaction must be recognized in results of the year as it is accrued, in accordance with the effective interest method, adjusting the account payable valued at amortized cost as mentioned above.

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The memorandum accounts recorded for collateral received which were in turn sold or pledged by the buyer, are canceled when the collateral sold is acquired to repay it to the seller, or when the second transaction in which the collateral was granted reaches maturity or there is a default on the part of the counterparty.

(h) Securities lending-

Securities lending is the transaction where the transfer of securities is agreed from the lender to the borrower, with the obligation to return such securities or other substantially similar instruments on a given date or as requested, in exchange for an interest as consideration. In these transactions, a collateral or guarantee is requested by the lender from the borrower.

– *Acting as lender-*

At the contract date of the securities lending transaction, when the Institution acts as lender, it records the security subject matter of the lending transferred to the borrower as restricted, for which purpose the standards for valuation, presentation and disclosure, based on the respective accounting treatment, are followed. Furthermore, the collateral received to guarantee the securities loaned is recorded in memorandum accounts.

The amount of the interest earned is recognized in results of the year through the effective interest method during the term of the transaction, under the caption "Interest income".

– *Acting as borrower-*

At the contract date of the securities loan transaction, the Institution records the security subject matter of the loan received in memorandum accounts, following the valuation guidelines for the securities recognized, in the accounting criterion B-9 "Assets in custody or under administration", the financial assets given as collateral are recognized as restricted, which will follow the valuation, presentation and disclosure standards in accordance with the relevant accounting criteria.

On the date on which the Institution sells the security subject matter of the transaction, it must recognize the entry of the proceeds from the sale, and an account payable for the obligation to return said security to the lender (measured initially at the agreed price) that will be valued at fair value. The foregoing, with the exception that the security subject matter of the transaction is given as collateral in a repurchase/resale agreement, for which the provisions of criterion B-3 must be followed.

The amount of accrued premium is recognized in the result of the year using the effective interest method during the term of the transaction, under the caption "Interest expense".

(i) Settlement clearing accounts-

Amounts receivable or payable for investment securities, repurchase/resale agreements, securities lending and/or derivative financial instruments, which have expired but have not been settled, are recorded in clearing accounts under "Other accounts receivable" and "Creditors on settlement of transactions", respectively, as well as the amounts receivable or payable for the purchase or sale of foreign currencies, which are not for immediate settlement or those with a same day value date.

Financial assets and liabilities are offset, and the net amount presented in the balance sheet as debit or credit balance, as appropriate, only when the Institution has a contractual right to offset amounts and intends either to settle them on a net basis or to realize the asset and cancel the liability simultaneously.

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(j) Derivatives-

The Institution carries out two different types of transactions in accordance with its intention:

- Trading - Consists of the position assumed by the Institution as market participant for purposes other than hedging open-risk positions.
- Hedging - Consists of the purchase or sale of derivative financial instruments to reduce the risk of a transaction or group of transactions.

The Institution's policies require that for purposes of entering into derivative transactions, the rating and, where appropriate, authorization of risk exposure by each of the counterparties of the financial system that has been authorized by the Central Bank for the execution of this type of transactions, are required. Prior to carrying out these transactions with corporate clients, a credit line authorized by the Credit Risk Committee or realizable guarantees must be in place through the pertinent bond contracts. Transactions involving small and mid-sized businesses, as well as individuals, are carried out through readily realizable guarantees established in bond contracts.

The assets and/or liabilities arising from transactions with derivative financial instruments are recognized in the financial statements on the date the transaction is carried out, regardless of the date of settlement or delivery of the asset.

The Institution initially recognizes all derivatives (including those forming part of hedges) as assets or liabilities (depending on the rights and/or obligations they embody) in the consolidated balance sheet at fair value, which presumably reflects the price at which the transaction was agreed. Any transaction costs that are directly attributable to the acquisition of the derivative are directly recognized in results under "Financial intermediation income".

All derivatives are subsequently valued at fair value without deducting the transaction costs incurred for their sale or other types of disposal; this valuation effect is then recognized in the results of the period under "Financial intermediation income".

Derivatives must be presented under a specific asset or liability caption depending on whether their fair value (as a consequence of the rights and/or obligations they embody) results in a debit or credit balance, respectively. These debit or credit balances can be offset as long as they comply with the offsetting rules provided in the applicable accounting criterion.

In the consolidated balance sheet, "derivatives" must be split between those held for trading and hedging purposes.

The determination of fair value considers the information and inputs provided by the price vendor authorized by the Commission, or an internal valuation process, provided there are no derivative financial instruments listed on domestic exchanges or traded in markets recognized by the Central Bank.

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Trading transactions-

– *Optional securities (“Warrants”)-*

Optional securities are documents which represent a temporary right acquired by the holders in exchange for the payment of a premium for the issuance in equity shares or indexes, whereby such right expires at the end of the effective term. Therefore, holding such securities implies that the intrinsic value and the market price of the optional security in the secondary market may vary based on the market price of the reference assets.

– *Forwards and futures contracts-*

Its balance represents the difference between the fair value of the contract and the contracted forward price. If the difference is positive, it is considered as surplus and presented under assets; if negative, it is considered as a deficit and presented under liabilities.

– *Options-*

For purchased options, the balance represents the fair value of future cash flows to be received, and the valuation effects are recognized in results of the year.

For sold options, the balance represents the fair value of future cash flows to be delivered, and the valuation effects are recognized in results of the year.

– *Swaps-*

The balance represents the difference between the fair value of the asset and the liability.

Hedging transactions-

Hedging derivatives are valued at market value, and the effect is recognized depending on the type of hedge accounting, as follows:

- a. If they are fair value hedges, the primary hedged position and the net effect of the derivative hedge instrument which is measured at fair value is recorded in results of the period under “Financial intermediation income”.
- b. If they are cash flow hedges, the hedge derivative is measured at fair value and the valuation of the effective part of the hedge is recorded under “Result from valuation of cash flow hedges” in stockholders’ equity. The ineffective portion is recorded in results of the period under the caption “Financial intermediation income”.
- c. Hedges of a net investment in a foreign transaction that complies with all the conditions are accounted for in manner similar to cash flow hedges; the effective portion is recognized in stockholders’ equity and the ineffective portion is recognized in results.

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Embedded derivatives-

- The Institution bifurcates the embedded derivatives of structured notes, whereby the reference underlying is based on the exchange rate, stock indexes, interest rate options with extendable periods and UMS bond price options.

In the case of debt and bond contracts in which the reference underlying is an interest rate with implied cap, floor and collar, the reference underlying's are considered to be closely related to the host contract, and consequently, these items are not bifurcated. Accordingly, the main contract issued for debt and bonds is recorded based on the applicable criteria to each contract, at the amortized cost in both cases.

Collateral granted and received in derivatives transactions performed over-the-counter markets-

- The account receivable from cash collateral provided in derivative transactions performed over-the-counter markets is presented under the caption "Other accounts receivable, net", whereas the account payable generated for the reception of collateral provided in cash is presented under the caption "Sundry creditors and other accounts payable".

Collateral delivered in securities is recorded as restricted securities for guarantees, and collateral received in securities for derivative transactions is recorded in memorandum accounts.

(k) Loan portfolio-

The balances in the loan portfolio represent the amounts disbursed to borrowers, plus accrued but unpaid interest less prepaid interest. The "Allowance for loan losses" is presented as a deduction from the total loan portfolio balance.

The Institution classifies its portfolio under the following captions:

- a. Commercial: Direct or contingent loans, including bridge loans, denominated in Mexican pesos or foreign currency, as well as any accrued interest, granted to corporations or individuals with business activities and used in relation to commercial or financial line of activity; includes loans granted to financial institutions (excluding interbank loans with maturities of less than three business days), loans for factoring transactions and loans related to finance lease transactions which are entered into with such corporations or individuals; loans granted to trustees who act on behalf of trusts and credit schemes commonly known as "structured" in which there is a change in net assets that allows for the individual assessment of the risk associated with the scheme. Also included are loans granted to States, Municipalities and decentralized agencies.
- b. Residential mortgages: Direct loans denominated in Mexican pesos, foreign currency, UDIs or multiples of the minimum wage (*veces salario mínimo*, "VSM"), as well as any accrued interest, granted to individuals and used for the acquisition, construction, remodeling or improvement of housing, for non-business purposes; includes home equity loans and mortgage loans granted to former employees who rendered services to the Institution.
- c. Consumer: Direct loans, denominated in Mexican pesos, or foreign currency, as well as any accrued interest, granted to individuals in relation to credit card operations, personal loans, payroll transactions (excluding those granted through a credit card), loans for the acquisition of consumer durables and finance lease transactions which are entered into with individuals.

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- d. Restricted: The Institution considers as restricted any asset for which there are circumstances that restrict its disposal and/or its use, for example, the loan portfolio given as collateral or guarantee in securitization transactions. For such purposes, the same current valuation criteria applicable to the rest of the loan portfolio are followed. Within the Institution's consolidated balance sheet, loans considered as restricted will be grouped as current or past due loans, as the case may be, and according to their nature as commercial, consumer or mortgage. The breakdown of restricted loans is made within the notes to the financial statements and not within the structure of the Institution's consolidated balance sheet.

The undrawn lines of credit are recorded in memorandum accounts under the caption "Credit commitments".

At the time of contracting, transactions with letter of credits are recorded in memorandum accounts under the caption "Credit commitments" which, when drew down by the customer or its counterparty, are transferred to the loan portfolio.

Outstanding balance of the loan and the associated interest are classified as performing and past due, considering the following criteria:

Performing loan portfolio-

- Loans that are current in the payments of both principal and interest.
- Loans that do not exhibit the characteristics of non-performing portfolio.
- Restructured or renewed loans which have evidence of sustained payment.

Non-performing loan portfolio-

- Loans with a single payment of principal and interest at maturity are considered non-performing 30 days after the date of maturity.
- Loans with a single payment of principal at maturity and with periodic interest payments are considered non-performing 90 days after interest is due.
- Loans whose principal and interest payments have been agreed in periodic installments are considered non-performing 90 days after an installment becomes due.
- If debts are composed by revolving credits with two outstanding monthly billing periods or, if the billing period is not monthly, 60 or more days after payment is due.
- Mortgage loans with periodic installments of principal and interest and are considered non-performing when a payment is 90 days or more in arrears.
- Customer checking accounts of clients that don't have authorized credit line showing overdrafts, will be reported in the non-performing portfolio at the date of the overdraft.
- If the borrower is declared bankrupt in accordance with the Commercial Bankruptcy Law, except for the loans on which the Institution continues to collect payments under the terms of fraction VIII, article 43 of the Commercial Bankruptcy Law and loans that are granted under the terms of the article 75 in relation with fractions II and III of Article 224 of the Commercial Bankruptcy Law.

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- Immediate collection documents referred to in Accounting Criterion B-1, “Cash and cash equivalents”, of the Commission when not collected within the allotted period of time (2 or 5 days as appropriate).

In relation to maturity terms referred to in the preceding paragraphs, monthly periods can be used, regardless of the number of days in each calendar month, according to the following equivalences: (i) 30 days are equivalent to a month; (ii) 60 days are equivalent to two months; and (iii) 90 days are equivalent to three months.

Non-performing portfolio which are restructured or renewed will remain in non-performing portfolio until there is evidence of sustained payment.

Sustained payments-

It is considered that there is sustained payment when the borrower shows compliance of the payment without delay for the total amount of principal and interest, for at least three consecutive amortizations of the loan payment scheme, or in the case of loans with amortizations that cover periods greater than 60 calendar days, the payment of one installment.

Regarding loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or upon maturity, it is considered that there is a sustained payment of the credit when any of the assumptions mentioned as following occurs.

- a) the borrower has covered at least 20% of the original amount of the credit at the time of restructuring or renewal, or else,
- b) the amount of interest accrued were covered according to the payment plan for restructuring or renewal corresponding to a 90-day term.

Furthermore, loans with a single payment of principal upon maturity and periodic payments of interest that are restructured or renewed during the credit term are classified as non-performing loan portfolio until there is evidence of sustained payment. Additionally, for those loans where the original term of the loan has not elapsed at least 80%, and payments received have not covered the total amount of accrued interest or covered the principal of the original amount of the loan that must have been settled as of the date of renewal or restructuring in question will be classified as non-performing loan portfolio.

The accrual of interest is suspended at the time the loan is classified as non-performing portfolio, including those loans, which, in accordance with the respective contract, capitalize interest to the amount of the debt. While a loan remains in the non-performing portfolio, accrued interest is recorded in memorandum accounts. When interest on non-performing portfolio is collected, it is recognized directly in results of the year under “Interest income”.

With regards to ordinary uncollected accrued interest on loans that are classified as non-performing portfolio, the Institution creates an allowance for the total amount of accrued interest outstanding at the time the loan is transferred to non-performing portfolio.

Financial factoring, discount and assignment agreement of credit rights-

At the beginning of the transaction, the value of the portfolio received is recognized against the cash outflow, recording the agreed value as other accounts payable and, if applicable, as deferred credit the financial income to be accrued deriving from operations of factoring, discount or assignment of credit rights.

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The deferred credit income referred-to in the above paragraph will be determined, if applicable, by the difference between the value of the portfolio received reduced by the advance rate and cash outflow. This accruable financial income must be recognized in deferred credits and prepaid expenses and amortized under the straight-line method for the life of the credit under "Interest income".

In the event that the transaction accrues interest, it will be recognized as accrued.

The amount of advances granted, if any, will be recognized as part of the financial factoring, discount or assignment of credit rights, within commercial credits loans.

Financial asset derecognition-

The Institution only derecognizes a financial asset when the related contractual rights expire or when the Institution transfers the financial asset because of: a) the contractual rights to receive the cash flows derived from the financial asset are transferred, or b) the contractual rights to receive the cash flows derived from the financial asset are retained, while assuming the contractual obligation to pay these cash flows to a third party.

When a portion of the financial asset is derecognized, the Institution must:

- a) Derecognize the portion of the transferred financial asset based on the most recent carrying amount, including, if applicable, the proportional part of the estimates and/or supplementary accounts associated with the financial asset. If applicable, the respective proportion of the unapplied or unrecognized effects associated with the financial asset must be recognized in the results of the year.
- b) Recognize the payments received from or incurred by the transaction, while considering any new financial assets and assumed obligations at fair value. For recognition purposes, the Institution utilizes an accounting criterion reflecting the nature of the payment in question.
- c) Recognize in the results of the year the gain or loss derived from the difference between the book value of the eliminated portion of the financial asset and the sum of (i) the received or incurred collections (recognized at fair value) and (ii) the effect (profit or loss) if any, the accrued valuation recognized in stockholders' equity.

Special accounting criteria derived from the health contingency due to COVID-19, applicable to the year ended December 31, 2020.

Due to the health contingency caused by COVID-19 and the negative impact on the economy, through official communications P285/2020 dated March 26, 2020, P293/2020 dated April 15, 2020, and P325/2020 dated June 23, 2020, the Commission temporarily issued special accounting criteria for credit institutions regarding the consumer, residential mortgage and commercial loan portfolios, for clients who have been affected and who were classified as current as of February 28, 2020 and March 31, 2020, depending on the date they joined the program. The Bank applied these special accounting criteria by establishing the temporary accounting policies described below:

Loans classified as current as of, either, February 28, 2020 (first program) or March 31, 2020 (second program), which incorporated into the program and subsequently restructured or renewed, were not considered as restructured loans or as past due loan according to accounting criteria B-6, as the program established a term of 120 calendar days following the aforementioned dates to conclude their incorporation to the program, and in which their new maturity date could not be greater than six months later from the original maturity date, as shown in the following page.

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1. Loans with a single payment of principal at maturity and periodic interest payments,
2. Loans with a single payment of principal and interest upon maturity,
3. Loans with periodic payments of principal in interest consisting of:
 - i. Not having elapsed at least 80% of the original term of the loan, when the borrower has paid:
 - a. all accrued interest, and
 - b. the principal of the original loan amount, which must have been repaid on the date of the renewal or restructuring.
 - ii. During the final 20% of the original term of the loan, when the borrower has:
 - a. paid all accrued interest,
 - b. repaid the entire original amount of the loan that must have been repaid on the renewal or restructuring date, and
 - c. 60% of the original amount of the loan is repaid.
4. The loans that from inception were classified as revolving.

Additionally, the loans that as of February 28, 2020 were classified as current for accounting purposes in which amendments were made to the original loan conditions within 120 calendar days of said date, where the risk profiles of the borrower were adjusted, and did not involve a total or partial deferral of principal and/or interest and that are different from those in Criterion B-6, when the amendments applied for a period of up to six months, were not considered as restructured loans.

For the application of the special accounting criteria described above, the Bank adhered to the following:

- It did not make contractual amendments that explicitly or implicitly consider the capitalization of interest, or the collection of any type of commission from the restructuring.
- It did not restrict, reduce or cancel the credit facilities previously authorized or agreed.
- It did not request additional guarantees or their replacement in the case of restructuring.

In compliance with the special accounting criteria described above, the support programs by type of portfolio that the Institution applied included the following:

- Commercial loans (Business and SMEs).- Grace period between four and six months for principal and/or interest. According to the negotiations with each borrower, the deferred monthly payments will be required at the expiration of the contract, with an extension of the expiration of the contract or at the end of the deferral period.
- Residential Mortgages.- Deferral of up to four monthly payments that will be due upon maturity of the loan.
- Payroll, Auto and Personal Consumer loans.- Four grace months (or eight fortnights) of principal and/or interest are granted, with an extension of the term.
- Credit Card (CC).- It consisted of deferring the enforceability of payments for four months.

In all cases, it did not apply the collection of default interest or charges for collection expenses and without affecting credit history.

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(I) Allowance for loan losses-

The Institution recognizes the allowance for loan losses based on the following:

i) Commercial loan portfolio-

Business and commercial-

For the commercial portfolio classified in the groups denominated "Large Enterprises" (evidenced by annual net sales over USD 50 million) and "Enterprises" (evidenced by annual net sales over 60 million pesos and below USD 50 million, except for the SME "plus" segment, comprised of borrowers that do not belong to a business group, with annual net sales between MXN 60 million and MXN 130 million), respectively, the Commission approved for the Institution the application of internal rating models to determine the allowance for loan losses with an advanced approach, through official communications 121-1/116843/2014 and 121-1/116844/2014 dated April 21, 2014, which are reviewed annually according to the Banking Regulations.

Additionally, pursuant to official communications 121-1/1744/2018 dated April 19, 2018 and 121-1/118708/2019 dated July 19, 2019, the Commission approved the re-estimation (calibration) of the internal models mentioned in the preceding paragraph, which includes risk parameters with information up to 2016 and 2017, parameters that were applied by the Institution as of July 2018 and July 2019, for the commercial portfolio groups of Large Enterprises and Enterprises, respectively.

Pursuant to official communication 121-1/1357/2020 dated December 17, 2020, the Commission approved the update of the parameters considered by said model, with information up to 2018, parameters that have been applied by the Institution as of December 2020 for the commercial portfolio groups of Enterprises.

As the Institution classifies the commercial credit loan portfolio into Large Enterprises and Enterprises groups, it considers an expected loss model for the following 12 months, according to the following:

Probability of Default (PD) - It is estimated based on scores of a rating model pursuant to a master scale computed using the companies' financial information; for a past due portfolio, a 100% percentage is considered for this variable.

Loss Given Default (LGD) - It is estimated through the discount of estimated cash flows to be collected, adjusted depending on the guarantee and the period of time on which the borrower has been in non-compliance.

Exposure at default (EAD) - It is determined considering the amount of the loan drawn-down balance at the end of each month, plus a percentage on the undrawn balance of the loan.

Commercial loans other than for Large Enterprises and Enterprises-

For rating the commercial portfolio other than the one corresponding to Large Enterprises and Enterprises groups, the Institution considers the PD, LGD and EAD factors, according to the Banking Regulations, as shown in the next page.

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The amount of the allowance for loan losses on each loan is determined by applying the following formula:

$$R_i = PD_i \times LGD_i \times EAD_i$$

Where:

R_i = Amount of the allowance for loan losses to be created for the nth loan.

PD_i = Probability of Default of the nth loan.

LGD_i = Loss Given Default on the nth loan.

EAD_i = Exposure at Default on the nth loan.

The PD_i will be calculated according to the following formula:

$$PD_i = \frac{1}{1 + e^{-(500 - Total\ Credit\ Score_i) \times \frac{1n(2)}{40}}}$$

For purposes of the above:

The total credit score of each borrower will be obtained by using the following formula:

$$Total\ Credit\ Score_i = \alpha \times (QCSt_i) + (1-\alpha) \times (QCSL_i)$$

Where:

Quantity Credit

Score i ($QCSt_i$) = It is the score obtained for the nth borrower when evaluating the risk factors according to the Banking Regulations.

Qualitative credit

Score i ($QCSL_i$) = It is the score obtained for the nth borrower when evaluating the risk factors according to the Banking Regulations.

α = It is the relative weight of the quantitative credit score.

Unsecured loans-

The LGD_i of commercial loans which are not covered by security interests in real property, or personal or credit-derived collateral will be:

- a. 45%, for Preferred Positions.
- b. 75%, for Subordinated Positions, in the case of syndicated loans, those which for purposes of their priority of payment are contractually subordinated in relation to other creditors.
- c. 100%, for loans which are 18 months or more in arrears for the amount due and payable under the originally terms.

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The EAD_i will be determined based on the following:

- I. For disposed balances of uncommitted credit facilities which may be canceled unconditionally or which in practice allow for an automatic cancellation at any time and without prior notice:

$$EAD_i = S_i$$

- II. For other credit lines:

$$EAD_i = S_i * \text{Max} \left\{ \left(\frac{S_i}{\text{Authorized Credit Line}} \right)^{-0.5794} \cdot 100\% \right\}$$

Where:

S_i = The outstanding balance of the nth loan at the rate date, which represents the amount of loan granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as any reduction, forgiveness, rebate and discount granted.

In any case, the amount subject to the classification must not include uncollected accrued interest recognized in memorandum accounts on the balance sheet for loans classified within non-performing portfolio.

Authorized
Credit Line = The maximum authorized amount of the credit line at the classification date

The Institution may recognize the security interests in real property, or personal or credit-derived collateral in the estimate of the LGD, with the aim of decreasing the reserves derived from the portfolio classification, according to the Banking Regulation.

Acceptable collateral may be financial and nonfinancial. Likewise, collateral is recognized only if it complies with the requirements established by the Commission in the Banking Regulation.

- ii) Portfolio of States and their Municipalities (governments)-

For rating states and municipalities, the Institution considers the PD, LGD and EAD factors, according to the Banking Regulations, as follows:

The amount of the allowance for loan losses of each loan shall be the result of applying the expression mentioned as follows:

$$R_i = PD_i \times LGD_i \times EAD_i$$

Where:

R_i = The amount of the allowance for loan losses to be created for the nth loan.
 PD_i = Probability of Default of the nth loan.
 LGD_i = Loss Given Default of the nth loan.
 EAD_i = Exposure at Default of the nth loan.

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The PD_i will be determined according to the following formula:

$$PD_i = \frac{1}{1 + e^{-(500 - Total\ Credit\ Score_i)} \times \frac{1n(2)}{40}}$$

For such purposes:

The total credit score of each borrower is calculated by applying the following formula:

$$Total\ Credit\ Score_i = \alpha \times (QCSt_i) + (1-\alpha) \times (QCSl_i)$$

Where:

$QCSt_i$	=	Quantitative Credit Score = IA + IB + IC
$QCSl_i$	=	Qualitative Credit Score = IIA + IIB
α	=	80%
IA	=	Average days in arrears with banking institutions (IFB) + % of on time payments with IFB + % of on time payments with non-bank financial institutions.
IB	=	Number of ratings agencies recognized in accordance with the provisions which provide a classification to the State or Municipality.
IC	=	Total debt to eligible participations + debt service to adjusted total revenues + short-term debt to total debt + total revenues to current expense + investment to total revenues + proprietary revenues to total revenues.
IIA	=	Local unemployment rate + presence of financial services of regulated entities.
IIB	=	Contingent obligations derived from retirement benefits to adjusted total revenues + operating balance sheet to local Gross Domestic Product + level and efficiency of collections + robustness and flexibility of the regulatory and institutional framework for budget approval and execution + robustness and flexibility of the regulatory and institutional framework for approval and imposition of local taxes + transparency in public finances and public debt + issuance of outstanding debt in the stock market.

Unsecured loans-

The LGD of the loans granted to States or Municipalities which are not covered by security interests in real property, or personal or credit-derived collateral will be:

- a. 45%, for Preferred Positions.
- b. 100%, for Subordinated Positions or when the credit reports 18 months or more of arrears for the amount due and payable under the original terms.

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The EAD_i will be determined based on the following:

$$EAD_i = S_i * Max \left\{ \left(\frac{S_i}{\text{Authorized Credit Line}} \right)^{-0.5794} \cdot 100\% \right\}$$

Where:

S_i = The outstanding balance of the nth loan at the classification date, which represents the amount of loan granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as any reduction, forgiveness, rebate and discount granted.

In any case, the amount subject to the classification must not include uncollected accrued interest recognized in memorandum accounts on the balance sheet for loans classified within non-performing portfolio.

Authorized

Credit Line = The maximum authorized amount of the credit line at the classification date.

The Institution may recognize the security interests in real property, or personal or credit-derived collateral in the estimation of the LGD of the credits, for the purpose of reducing the allowance for loan losses derived from the portfolio classification, according to the Banking Regulations.

Admissible security interests in real property may be financial and nonfinancial. Furthermore, only those security interests in real property which comply with the requirements determined by the Commission are recognized.

The allowances for loan losses from the commercial loan portfolio created by the Institution as a result of the rating of each loan are classified in accordance with the following percentages:

<u>Risk Level</u>	<u>Percentages Ranges for Allowances</u>		
A-1	0%	to	0.90%
A-2	0.901%	to	1.50%
B-1	1.501%	to	2.00%
B-2	2.001%	to	2.50%
B-3	2.501%	to	5.00%
C-1	5.001%	to	10.00%
C-2	10.001%	to	15.50%
D	15.501%	to	45.00%
E	More than 45.00%		

iii) Residential mortgage loan portfolio-

Pursuant to official communication 121-1/1813/2018 dated November 16, 2018, the Commission approved the Institution to apply prospectively the internal measurement models for the determination of the mortgage loan portfolio allowance for loan losses under an advanced approach.

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Additionally, pursuant to official communication 121-1/074/2020 dated August 14, 2020, the Commission approved the update of the parameters considered for such model, with information up to 2018, parameters that have been applied by the Institution as of August 2020 for the residential mortgage portfolio groups.

For rating mortgage loan portfolio, the Institution considers an expected loss model for the next 12 months according to the following:

- PD = it is estimated based on scores allocated, considering the admission tool, credit behavior or number of defaults (scoring model), whether the loan is refinanced or not, based on the loan aging and the type of portfolio.
- LGD = it is estimated through the cash flows discount of delinquent exposures recovered at different times, estimated to be recovered, adjusted for the guarantee, the product, and period of time of non-compliance by the borrower.
- EAD = it is determined considering the principal loan balance at the end of each month.

The allowance for mortgage loan losses constituted by the Institution following this credit rating process is classified according to the following risk level and percentages:

<u>Risk Level</u>	<u>Percentages Ranges for Allowances</u>		
A-1	0%	to	0.50%
A-2	0.501%	to	0.75%
B-1	0.751%	to	1.00%
B-2	1.001%	to	1.50%
B-3	1.501%	to	2.00%
C-1	2.001%	to	5.00%
C-2	5.001%	to	10.00%
D	10.001%	to	40.00%
E	40.001%	to	100.00%

iv) Non-revolving consumer loan portfolio-

Pursuant to Resolution issued by the Commission on January 6, 2017, the Institution, as from July 1, 2017, determines reserves under the methodology that considers PD, LGD and EAD factors, as described in the next page.

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The amount of the allowance for loan losses of each loan shall be the result of applying the formula described as follows:

$$R_i = PD_i^x \times LGD_i^x \times EAD_i$$

Where:

R_i	=	The amount of the allowance for loan losses to be set up for the nth loan.
PD_i^x	=	Probability of default of the nth loan, classified as ABCD (B), automobile (A), payroll (N), personal (P), other (O).
LGD_i^x	=	Loss Given Default of the nth loan, classified as ABCD (B), automobile (A), payroll (N), personal (P), other (O).
EAD_i	=	Exposure at Default of the nth loan.
x	=	Super index that indicates the loan type corresponding to ABCD (B), automobile (A), payroll (N), personal (P), other (O).

For rating non-revolving consumer portfolio, the Institution considers a loss model according to the following:

- PD = it is determined based on the loan type classification (B, A, N, P and O), depending on the delays, incorporating in their determination risk coefficients with specific values established in the Banking Regulations for each loan type, borrower's payment behavior variables within the Institution and other entities of the Mexican Financial System, mainly.
- LGD = it is determined based on the loan type classification (B, A, N, P and O), depending on the delays, incorporating in their determination LGD percentages in the observed delays at the rating date.
- EAD = it corresponds to the principal and interest balance of each non-revolving consumer loan upon the portfolio rating.

Allowance for consumer loan losses which, does not include credit card transactions, set up by the Institution as a result of the loan rating, are classified according to the risk degrees and percentages shown as follows:

<u>Risk Level</u>	<u>Percentages Ranges for Allowances</u>		
A-1	0%	to	2.00%
A-2	2.01%	to	3.00%
B-1	3.01%	to	4.00%
B-2	4.01%	to	5.00%
B-3	5.01%	to	6.00%
C-1	6.01%	to	8.00%
C-2	8.01%	to	15.00%
D	15.01%	to	35.00%
E	35.01%	to	100.00%

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v) Consumer credit loan portfolio-

The Commission approved the Institution's request to apply an internal allowance for loan losses credit card rating model with advanced approach per Document 111-1/69930/2009 on June 22, 2009. Also, by official communication 121-1/1065/2019 dated June 17, 2019, the Commission approved the update of the parameters considered by said model such as the use of historical information until 2017, parameters that have been applied by the Institution as of July 2019.

Finally, pursuant to official communication 121-1/095/2020 dated October 15, 2020, the Commission approved the update of the parameters considered for such model, with historical information up to 2018, parameters that have been applied by the Institution from October 2020.

For rating its revolving consumer portfolio, the Institution considers an expected loss model for the next 12 months according to the provisions below.

- PD = it is estimated based on scores allocated, considering the admission tool or credit behavior (Scoring model), based on the loan age and the type of portfolio.
- LGD = it is estimated through the cash flows discount of delinquent exposures recovered at different times, estimated to be recovered, adjusted for the guarantee and period of time of noncompliance by the borrower.
- EAD = it is determined considering the principal loan balance at the end of each month, plus a percentage on the undrawn balance of the loan.

The allowance for credit card losses created by the Institution following this credit rating process is classified according to the following risk level and percentages:

<u>Risk Level</u>	<u>Percentages Ranges for Allowances</u>		
A-1	0%	to	3.00%
A-2	3.01%	to	5.00%
B-1	5.01%	to	6.50%
B-2	6.51%	to	8.00%
B-3	8.01%	to	10.00%
C-1	10.01%	to	15.00%
C-2	15.01%	to	35.00%
D	35.01%	to	75.00%
E	More than 75.01%		

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vi) Restructuring and renewal processes-

A restructuring process is a transaction derived from any of the following situations, as described below.

- a) The extension of credit enhancements given for the loan in question, or
- b) The modification of original credit or payment scheme conditions, which include:
 - The modification of the interest rate established for the remainder of the loan period;
 - The change of currency or account unit, or
 - The concession of a grace period regarding the payment obligations detailed in the original credit terms, unless this concession is granted after the originally- agreed period, in which case it is considered as a renewal.

Restructuring transactions do not include those which, at the restructuring date, indicate payment compliance for the total amount due for principal and interest and which only modify one or more of the following original credit conditions:

Guarantees: only when they imply the extension or substitution of credit guarantees for others of higher quality.

Interest rate: when the agreed interest rate improves.

Currency: provided the respective rate is applied to the new currency.

Payment date: only if the change does not mean exceeding or modifying payment periodicity. Modifying the payment date must not permit nonpayment in any given period.

A renewal is a transaction which extends the loan duration at the maturity date or when the credit is paid at any time by using the proceeds generated by another loan contracted with the same entity in which one of the parties is the same debtor or another individual or entity with equity shareholding relationships thereby constituting a joint risk. A loan is not considered to be renewed when disbursements are made during the term of a pre-established credit line.

If a restructuring or renewal process is used to consolidate different loans granted to the same borrower in a single loan, the treatment applied to the total debt balance resulting from this restructuring or renewal process reflects the rating given to the worst rated among the component loans.

Current loans other than those with a single principal payment and the payment of interest accrued periodically or at maturity, which are restructured or renewed before at least 80% of the original credit period has elapsed are only considered as current when the borrower has a) settled all accrued interest, and b) paid the principal of the original loan amount which was due at the renewal or restructuring date.

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If all the conditions described in the preceding paragraph are not fulfilled, loans are classified as non-performing from their restructuring or renewal date and until evidence of sustained payment is obtained.

Performing loans other than those involving a single principal payment and the payment of interest periodically or at maturity, which are restructured or renewed during the final 20% of the original credit period are only considered as performing when the borrower has a) settled all accrued interest, b) paid the original loan amount due at the loan renewal or restructuring date and c) paid 60% of the original loan amount.

If all the conditions described in the preceding paragraph are not fulfilled, loans are classified as non-performing from their restructuring or renewal date and until evidence of sustained payment is obtained.

Loans involving a single principal payment, and the payment of interest periodically or at maturity and which are restructured during the credit period or renewed at any time are classified as non-performing portfolio until evidence of sustained payment is obtained.

Loans which are initially classified as revolving and which are restructured or renewed at any time are only considered as performing when the borrower has settled all accrued interest, the loan has no overdue billing periods and the elements needed to verify the borrower's capacity to pay are available, ergo, it is highly likely that the borrower will settle the outstanding payment.

Deductions, forgiveness, bonuses and discounts, therefore, the fully or partially forgiven amount of the loan repayment, are recorded with a debit to the allowance for loan losses. In the event that the amount thereof exceeds the balance of the estimate associated with the loan, estimates are previously recorded up to the amount of the difference.

vii) Write-offs, eliminations (financial write-offs) and loan portfolio recoveries-

The Institution periodically evaluates whether a past due loan should remain on the balance sheet, be eliminated, or written off. Write-offs and eliminations are made by writing off the unpaid balance against the allowance for loan losses. When the unpaid balance exceeds the associated estimate, before recording the write-off, the missing amount of the estimate is increased.

In the elimination, past due loans that are provisioned at 100% may be derecognized, even when they meet, after the date of their removal from the balance, the conditions to be written off.

Any recovery derived from loans previously written off or eliminated pursuant to the Banking Regulations shall be recognized in the year results under "Allowance for loan losses".

When the allowance for loan losses account balance has exceeded the amount required by the Banking Regulations, the differential shall be canceled in the period when those changes occur against the year results, affecting the same item that originated it, that is, the allowance for loan losses.



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(m) Securitization with transfer of ownership-

By securitizing the mortgage loan portfolio by transferring ownership, the Institution (the “Transferor”) transfers the financial assets through a securitization vehicle (the “Trust”), to enable the latter to issue securities through an intermediary (the “Institution”), for placement among retail investors, which represent the right to the returns or the proceeds generated from the securitized financial asset, and as consideration the Transferor receives cash and a certification granting it the right to the remaining flows from the Trust after payment of the certificates to their holders.

On December 17, 2007, the Commission authorized the Institution, through Document 153/1850110/2007, registered in the National Securities Register of the Share Certificate Issuance Program up to the amount of \$20,000 or its equivalent in UDIs with an effective term of five years computed as of the authorization date; such program is revolving.

The Institution recognized the securitized transactions performed during 2009 in accordance with the Accounting Criteria issued by the Commission in the same year, regarding C-1 “Financial Asset recognition and derecognition”, C-2 “Securitized transactions” and C-5 “Consolidation of special-purpose entities”. After applying these criteria, the Institution derecognized the securitized assets held by the trusts, which were subsequently consolidated on the balance sheet of the Institution. Securitizations prior to 2009 are not consolidated, based on the treatment provided by the Commission, applicable as of that date.

The benefit valuation methodology applied to the securitized transaction residual is detailed below:

- The Institution has tools to measure and quantify the impact of securitized transactions on the consolidated balance sheet and statement of income based on the cost of funding, release of capital, reserves and liquidity levels when structuring issuances and during the life of each.
- The valuation system measures the follow-up of certificate performance and the subordinated portions recorded by the Institution and, if applicable, it also values the bond position to consider its possible sale on a secondary market. The valuation model is used to calculate the Institution’s constant historical prepayment rate computation, the mortality rate, current credit percentage, interest rate, issuance amount and value of guarantees with respect to the loan guarantee, among other items.

During 2020, trusts 847 and 989 were early terminated (see note 3(b)), therefore, as of December 31, 2021, only trust 881 is still active.

The main characteristics of securitization agreements are detailed in Note 12.

(n) Other receivable, net-

Balances of sundry debtors that are not settled within 90 or 60 days following their initial recognition, depending on whether balances are identified or not, are reserved with a charge to results of the year, regardless of the probability of recovery, except for the recoverable taxes and settlement accounts.

(Continued)



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(o) Net foreclosed assets or received through payment in kind, net-

Assets that are foreclosed or received through payment in kind are recorded at the lower of cost or fair value, less the direct and incremental costs and expenses incurred when they were awarded.

Property acquired through legal foreclosure is recognized on the date on which the foreclosure ruling is issued.

Property received as payment is recorded on the date on which the in-kind payment document is executed or when the delivery or transfer of ownership is formalized documented.

On the recording date of the foreclosed assets or assets received as payment in kind, the value of the asset which originated the foreclosure, as well as its respective reserve, must be canceled from the balance sheet, or the portion involving accrued or overdue payments settled through the partial payments in accordance to the Banking Regulations.

If the value of the asset, or the past due accrued amortizations, which originated the foreclosure, net of reserves, exceeds the value of the foreclosed assets, the difference will be recognized in the year results under "Other operating income (expenses)" as an expense.

When the value of the asset that originated the foreclosure, net of reserves, is less than the value of the foreclosed assets, the value of the latter must be adjusted to the net value of the asset.

Upon sale of the foreclosed property, spread between the sales price and the carrying value of the awarded property, net of allowances, must be recorded directly in earnings for the year under "Other operating income (expenses)".

Foreclosed property is valued according to the type of property in question, recording an allowance for awarded property against earnings for the year under caption "Other operating income (expenses)".

Considering the foregoing, and in compliance with the Banking Regulations, the determination of the allowance for personal property or real property foreclosed or received in payment over a period of time, is computed based on the tables shown below, depending on the type of property in question.

Allowance for personal property	
Time elapsed as of the repossession or Payment-in-kind (months)	Allowance percentage
Up to 6	0%
More than 6 and up to 12	10%
More than 12 and up to 18	20%
More than 18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%

(Continued)



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Allowance for real estate

<u>Time elapsed as of the repossession or Payment-in-kind (months)</u>	<u>Allowance percentage</u>
Up to 12	0%
More than 6 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

(p) Property, plant and equipment, net-

Property, plant and equipment, net is recorded at acquisition cost. Assets acquired prior to December 31, 2007 were restated by applying factors derived from UDI up to that date. The related depreciation and amortization are recorded by applying a given percentage based on the estimated useful life of such assets to the cost restated to that date.

Depreciation is determined based on the cost or the cost restated until 2007 as appropriate, using the straight-line method as of the month following of the acquisition date, applying the rates detailed below:

Real estate	2.50%
Construction	1.30%
Construction components:	
Elevators	3.30%
Power plants	2.80%
Pipelines	2.80%
Air conditioner	2.80%
Computer equipment	25.00%
ATMs	12.50%
Furniture and equipment	10.00%
Transportation equipment	25.00%
Security equipment	10.00%

The estimated useful lives, residual value and depreciation method of construction and its components, are reviewed at the end of each year, and the effect of any change in estimates is recognized initially recorded on a prospective basis.

Maintenance and minor repair expenses are recognized in results of the year when they are incurred.

(Continued)



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(q) Impairment of long-lived assets in use-

The Institution tests the net carrying value of long-live assets in order to determine the existence of impairment indicators that such value exceeds its recovery value. The recovery value represents the potential amount of net income that it is reasonably expected to be obtained as a consequence of the use or realization of such assets.

If it is determined that net carrying value exceeds recovery value, the Institution records the required allowances. When it is intended to sell the assets, these are recorded in the consolidated financial statements at the lower of net carrying value or realizable value. The assets and liabilities of a group classified as available for sale are shown separately in the consolidated balance sheet.

(r) Equity investments-

Are represented by those equity investments made by the Institution in entities over which it has significant influence but lacks control and are initially recorded at acquisition cost and subsequently valued by the equity method. The dividends received are decreased from the equity investment.

Furthermore, there are other equity investments which are recorded at acquisition cost and the dividends received from these investments are recognized in results of the year, except when they refer to profits from periods before the acquisition, in which case they are recorded as a reduction to the equity investment.

(s) Income tax and employee statutory profit sharing (for its acronym in Spanish “PTU”, as of the 2021 fiscal year, due to the incorporation of employees, mentioned in note 1, to the Institution)-

Income Tax (“IT”) and PTU are recorded in the results of the year as incurred in accordance with current tax provisions.

Deferred IT and PTU are accounted for under the asset and liability method.

Deferred IT and PTU assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for operating loss carry forwards and other recoverable tax credits. Deferred IT and PTU assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred IT and PTU assets and liabilities of a change in tax rates is recognized on the statement of income in the period that includes the enactment date.

The IT and PTU, current and deferred, are presented and classified in the results of the period, except those that originate from a transaction recognized under “Other Comprehensive Income” (OCI) or directly in an item of stockholders' equity.

Uncertain tax treatments are recognized in both accrued and deferred income taxes and the income taxes generated by a distribution of dividends.

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(t) Other assets- Deferred charges, prepayments and intangibles-

It includes deferred charges for costs and expenses associated with the making of the loan, expenses for issuing securities and other deferred charges. It also includes advance payments for interest, commissions, sales and others, as well as provisional tax payments.

Software, computer developments and intangible assets are originally recorded at value disbursed and the amortization of those definite useful life is calculated by the straight-line method at a rate of 20%.

(u) Deposits funding-

Deposits funding comprises demand and time deposits from the general public, as well as those obtained in money market transactions, negotiable instruments issued and the global deposit account without transactions, which are integrated as described below:

- a. Demand deposits.- Include checking accounts, savings accounts, and checking account deposits, among others.
- b. Time deposits.- Include, among others, certificates of deposit settled on pre-determined days, bank acceptances and promissory notes with return payable at maturity collected from the general public and through money market transactions. Money market transactions are referred to time deposits held with other financial institutions, as well as treasuries of companies and government entities.
- c. Debt securities issued.- Made up of, among others, bank bonds and stock certificates.
- d. Global deposit account without transactions.- Includes the principal and interest of the deposit-taking instruments that do not have a maturity date, or that having a maturity date are automatically renewed, as well as past due and unclaimed transfers or investments.

If in the course of three years from when the funds are held in the global deposit account without transactions, the amount of which does not exceed, per account, the equivalent of 300 units of measurement (for its acronym in Spanish "UMAS"), they will be forwarded to public welfare, the Institution will be required to report the funds corresponding to public welfare within a maximum period of fifteen days from December 31 of the year in which the aforementioned event occurs.

Traditional deposit-taking interests are recognized in the consolidated income statement as they are accrued under "Interest expense".

Issuance expenses, as well as the discount or premium in the placement, are recognized as a deferred charge or credit, as the case may be, which is amortized in results as it accrues as expenses or interest income, as appropriate, taking into consideration the term of the instrument that gave rise to it in proportion to the maturity of the instruments.

(v) Bank and other borrowings-

Bank and other borrowings comprise loans from domestic and foreign banks. Interest is recognized on an accrual basis under "Interest expenses".

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(w) Employee benefits-

Short-term direct benefits

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

Long-term direct benefits

The Institution's net obligation regarding direct long-term benefits the Institution is expected to pay after 12 months from the date of the most recent consolidated balance sheet is the amount of future benefits that the employees have obtained in exchange for their service in the current and previous years. This benefit is discounted to determine its present value. Remeasurements are recognized in income in the period in which they accrue.

Severance benefits

A liability for severance benefits and a cost or expense is recognized when the Institution has no realistic alternative other than to face the payments or cannot withdraw the offer of those benefits, or when it meets the conditions to recognize the costs of a restructuring, whichever occurs first. If they are not expected to be settled within 12 months after the end of the fiscal year, then they are discounted.

Post-employment benefits

Defined contribution plans

Obligations for contributions to defined contribution plans are recognized in income as the related services are rendered by the employees. Contributions paid in advance are recognized as an asset to the extent that the advance payment gives rise to a reduction in payments to be made in the future or to a cash reimbursement.

Defined benefit plans

The Institution's net obligation relating to defined benefit pension plans, seniority premiums, benefits upon death, sports club benefits and statutory severance payments, is calculated on a separate basis for each plan, estimating the amount of future benefits earned by employees and in the current and previous years, deducting and deducing the fair value of the plan assets from such amount.

Calculation of the obligation for the defined benefit plans is performed on an annual basis by actuaries, using the projected unit credit method. When the calculation results in a possible asset for the Institution, the recognized asset is limited to the present value of the economic benefits available in the form of future refunds of the plan or any curtailment in future contributions thereto. To calculate the present value of the economic benefits, any minimum financing requirement must be taken into consideration.

The labor cost of the current service, which represents the cost of the employee benefit period for having completed one more year of working life based on the benefit plans, is recognized in operating expenses. The Institution determines the net interest expense (income) on the net liability (asset) for defined benefits of the year, by multiplying the discount rate used to measure the defined benefit obligation by the net liability (asset) defined at the beginning of the reporting annual period, considering changes in the net liability (asset) from the defined benefits during the period as result of the estimations of the contributions and benefit payments. Net interest and labor cost are recognized as part of the cost of the year as administrative expenses.

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The amendments to the plans that affect the cost for services provided are recognized in earnings immediately in the year where said amendment occurs, without the possibility for deferral in subsequent years. Furthermore, the effects of any severance events or obligations curtailment for the period, which significantly reduce the cost of future services and/or significantly reduce the population subject to benefits, respectively, are recognized in earnings for the period.

Any remeasurement (before actuarial gains and losses) resulting from differences between the projected and actual actuarial assumptions by the end of the period are recognized in the period where they are incurred within the stockholders' equity.

(x) Accruals-

Accruals are recognized when there is a present obligation resulting from a past event, which is likely to result in an outflow of economic resources, and that can be estimated reasonably.

(y) Foreign currency transactions-

Transactions denominated in foreign currency are recorded in the currency of the operation and valued at the exchange rate determined by the Central Bank. Monetary assets and liabilities denominated in foreign currency are valued in local currency at the exchange rate at the end of day of each period, issued by the Central Bank. The differences in changes incurred in relation to assets or liabilities contracted in foreign currency are recorded in the results of the year.

The result of currency trading comes from the difference between the exchange rates used to buy and/or sell currencies, including adjustment to the final position, valued at the exchange rate referred to in the previous paragraph.

(z) Net interest income-

The Institution's net interest income consists of the difference resulting from interest income less interest expense.

Interest income-

Interest income comprises returns generated by the loan portfolio, depending on the terms established in agreements entered into with the borrowers at agreed upon interest rates, earned interest income in capital lease transactions, amortization of interest collected in advance, as well as interest from deposits held at financial entities, bank loans, margin accounts, investments in securities, repurchase agreements and securities lending, accrual of collected fees for loan origination, as well as dividends of net worth instruments considered as interest income and insurance premium revenues.

Interest earned on loans is included in earnings as it accrues. Interest on past-due portfolio is included in earnings until it is collected.

Commissions charged for loan origination are recorded as deferred revenues under the "Deferred credits and prepayments" caption of the consolidated balance sheet and are amortized to earnings under "Interest income" using the straight-line method over the life of the loan, except for those related to revolving loans, which are amortized over a 12-month period.

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Interest expense-

Interest expense is comprised of the bank deposit's premiums, discounts and interest, bank loans, repurchase agreements, securities loans, debentures, debt placement issuance expenses and discounts. The amortization of costs and expenses incurred to originate loans is included within interest expense.

Commissions charged and associated costs and expenses-

The commissions charged for restructuring or renewal of loans are added to the commissions that were initially originated as stated above, being recognized as a deferred loan that is amortized to using the straight-line method throughout the new term of the loan.

Commissions recognized after the initial loan origination, those incurred as part of the maintenance of such loans, or those collected for other reasons that the granting are recognized in results when they are incurred.

Incremental costs and expenses associated with the initial loan grant are recognized as a deferred charge and are amortized against results as "Interest expense" during the same accounting period in which income from collected commissions is recognized.

Any other costs or expenses, including those related to promotion, advertising, potential clients, management of existing loans (follow-up, control, recoveries, etc.) and other ancillary activities related to the establishment and monitoring of loan policies are recognized directly in results as incurred under the respective line item that corresponds to the nature of the cost or expense.

Costs and expenses associated with the issuance of credit cards are recognized as a deferred charge, which is amortized to results over a 12-month period under the respective line item that corresponds to the nature of such cost or expense.

On the cancellation date of a credit line, the remaining unamortized balance of commission fees collected for credit lines cancelled before the end of the 12-month period are recognized directly in results of the year under "Commissions and fee income".

(aa) Memorandum accounts-

Memorandum accounts are used to record assets or commitments which do not form part of the Institution's balance sheet because the related rights are not acquired or such commitments are not recognized as a liability of the entities until such eventualities occur, respectively:

– *Contingent assets and liabilities:*

Formal claims that may involve any responsibility for the Institution.

– *Loan commitments:*

The balance represents the value of letters of credit granted by the Institution and that are considered as irrevocable commercial loans not used by borrowers and authorized unused lines of credit.

The above items recorded in this account are subject to loan rating.

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– *Assets in trust or under mandate:*

The Institution records the transactions of Assets or Trusts in memorandum accounts according to the following:

- These represent the value of property received in trust, all information concerning the management of each being kept in separate accounts.
- Those that, due to their assets and liabilities, result from the transactions and whose recognition and valuation is carried out in accordance with the provisions of the specific Accounting Criteria applicable to the Institution.

Losses incurred by the Institution for liabilities incurred as a trustee are recognized in the results in the period in which they are known, regardless of the time in which any legal action is carried out for this purpose.

The trust services unit maintains special accounting for each agreement in the trustee system, and records in them and in its own accounting the money and other assets, securities or rights entrusted to them, as well as increases or decreases, for products or expenses respectively, invariably the balances of the special accounts of each trust agreement match the balances of the memorandum accounts in which the Institution recognizes the trust estate.

These assets in no event shall be assigned to other liabilities than those derived from the trust, or that that correspond to third parties in accordance with the Banking Law.

When, due to the nature of the trusts created in the Institution, there are assets or liabilities against or in favor of the Institution, these are recognized in the consolidated balance sheet, as appropriate.

The mandate is recorded at the goods stated value subject to the mandate agreements entered into by the Institution.

Revenue recognition from management of trusts is based on accrual. Accrual of said revenue is suspended when the debt is 90 or more days past due and can be accrued again when the outstanding debt is paid in full.

As long as the income accrued from the management of trusts is suspended from accrual and not collected, control thereof is kept in memorandum accounts. In the event that such accrued income is collected, it is recognized directly in the results of the year.

– *Assets in custody, guarantee and under management:*

Cash and securities owned by the clients under custody, guarantee and management are reflected in the respective memorandum accounts and are valued based on the price delivered by the price vendor.

Securities under custody and management are deposited at S.D. Indeval, Institución para el Depósito de Valores, S. A. de C. V.

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– *Collateral received by the entity:*

This balance represents the total amount of collateral received in repurchase transactions and securities loans, when the Institution acts as the repurchasing party and borrower.

– *Collateral received and sold or given in guarantee by the entity:*

This balance represents the total collateral received and sold or given in guarantee when the Institution acts as the repurchasing party and borrower.

– *Uncollected earned interest derived from past due portfolio:*

The interest earned is recorded in memorandum accounts once a loan is transferred to past due portfolio.

– *Other record accounts:*

As of December 31, 2021 and 2020, the other memorandum accounts present a balance of \$3,662,642 and \$3,336,242, respectively, which comprise mainly collateral received by the Institution, among others.

(ab) Contingencies-

Significant contingency-related obligations or losses are accounted for when materialization becomes likely and there are reasonable elements for quantification. In the absence of these reasonable elements, a disclosure is included on a qualitative basis in the notes to the financial statements. Contingent revenues, profits or assets are recorded when there is certainty about their realization.

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(4) Cash and cash equivalents

As of December 31, 2021 and 2020, cash and cash equivalents are comprised as follows:

	<u>2021</u>	<u>2020</u>
Cash in hand	\$ 62,561	59,969
Banks	193,041	128,518
Restricted cash:		
Foreign currency purchases ⁽²⁾	59,328	103,790
Foreign currency sales ⁽²⁾	(58,336)	(116,863)
Deposits at Central Bank ⁽¹⁾	33,949	33,936
Call money ⁽³⁾	10,001	–
Other cash and cash equivalents	<u>544</u>	<u>796</u>
	301,088	210,146
Reclassification to liability to offset forex purchases and sales ⁽²⁾	-	13,073
Total	<u>\$ 301,088</u>	<u>223,219</u>

(2) See explanation in the next page.

(3) See explanation in the next page.

The caption of “Banks” comprised below, is represented by cash in MXN and US dollars translated at the closing exchange rate published by the Central Bank of \$20.5075 pesos per US dollar as of December 31, 2021. As of December 31, 2020, translated at the exchange rate to settle obligations published by the Central Bank of \$19.9087 pesos per US dollar.

	MXN		US dollars MXN equivalent		Total	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	Deposits with foreign banks	\$ 920	1,399	159,183	98,757	160,103
Central Bank	<u>27,931</u>	<u>23,209</u>	<u>5,007</u>	<u>5,153</u>	<u>32,938</u>	<u>28,362</u>
	<u>\$ 28,851</u>	<u>24,608</u>	<u>164,190</u>	<u>103,910</u>	<u>193,041</u>	<u>128,518</u>

⁽¹⁾ As of December 31, 2021 and 2020, the deposits with Central Bank includes Institution’s Monetary Regulation Deposits in Central Bank (for its acronym in Spanish “DRM”), which amount to \$33,949 and \$33,936, respectively. These Monetary Regulation Deposits will have an indefinite duration, for which Central Bank will provide timely notice of the date and the procedure for withdrawal of the respective balances. Interest on the deposit is payable every 28 days by applying the rate established in the Banking Regulations issued by Central Bank.

On April 1, 2020, circular 7/2020 was published in the Official Gazette of the Federation (for its acronym in Spanish “DOF”) regarding the amendments to Circular 9/2014 where it is stated that the Central Bank reduced the total amount of DRM through which it regulates the excess liquidity in the Money market, returning \$9,036 to the Institution.

On November 4, 2020, circular 42/2020 was published in the DOF where the Central Bank, in consideration of the applicable measures due to the COVID-19 pandemic, adjusted the operational aspects contemplated in the rules applicable to DRM, contained in Circular 9/2014, and regarding the reduction of the total amount of DRM that was implemented through Circular 7/2020, announced an increase in DRM, which the Institution increased by \$2,708.

As of December 31, 2021 and 2020, the amount of accrued interest not collected from the DRM that was recognized amounted to \$46 and \$33, respectively.

On May 12, 2016 through Circular 9/2016, the Central Bank issued rules for the auction of Reportable Monetary Regulation Bonds (BREMS R), which indicate that these instruments can be settled with monetary regulation deposit (DRM) resources. The current Banking Regulations establish that the DRM may be comprised of cash, securities or both.

As of December 31, 2021 and 2020, the Institution holds BREMS R in the amount of \$32,695 and \$32,682, respectively, which form part of the DRM. These amounts are recorded as restricted under the caption of “Investments in securities” in the category of securities available-for-sale (note 6(b)), this is as a consequence of the bond prospectus establishing that it must only be sold directly or through repurchase/resale transactions to the Central Bank, when determined by the latter through general regulations.

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⁽²⁾ As of December 31, 2021 and 2020, foreign currencies to be received and delivered in connection with purchases and sales, respectively, payable in 24 to 96 hours are as follows:

	Balance in foreign currency (millions)		MXN equivalent	
	2021	2020	2021	2020
Foreign currency purchases to be received at 24, 48, 72 and 96 hours:				
USD	2,782	5,099	\$ 57,049	101,518
EUR	85	93	1,983	2,272
CHF	–	–	2	–
CAD	18	–	291	–
JPY	20	–	3	–
Total			\$ 59,328	103,790
Foreign currency sales to be settled at 24, 48, 72 and 96 hours:				
USD	(2,837)	(5,841)	\$ (58,174)	(116,293)
EUR	(6)	(18)	(146)	(429)
JPY	–	(729)	–	(141)
CAD	(1)	–	(16)	–
Total			(58,336)	(116,863)
			\$ 992	(13,073)^(*)

^(*) Balance reclassified after offsetting purchases and sales of foreign currency.

Upon recording foreign currencies to be delivered or received from sales and purchases under “Cash and cash equivalents”, the clearing accounts of the counter value of these transactions are recorded in the consolidated balance sheet under “Other accounts receivable, net” and “Creditors on settlement of transactions”, accordingly.

In accordance with the provisions in force for credit institutions, in the caption cash and cash equivalents, it is stated that in the event that the offsetting balance of foreign currency to be received with the foreign currency to be delivered, with a term between 24 and 96 hours, results a liability balance, it must be reclassified to “Sundry creditors and other accounts payable”, so that as of December 31, 2020, the net liability balance of foreign currency to be received and delivered was reclassified for \$13,073.

⁽³⁾ For the years ended December 31, 2021 and 2020, interest recognized in the year’s results by Call Money transactions amounted to \$72 and \$48, with average return rates of 5% and 5.50%, respectively. As of December 31, 2021, there are Call Money transactions with two Banking Institutions with a par value plus interest of \$10,001 of 3-day terms (as of December 31, 2020, there are no call money transactions).

(5) Margin accounts

As of December 31, 2021 and 2020, margin accounts consist of guarantees granted in cash for derivative financial transactions in organized markets of \$8,054 and \$32,261, respectively.

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(6) Investment securities

As of December 31, 2021 and 2020, investments in securities were as follows:

a. Trading securities

Instrument	2021			2020	
	Acquisition cost	Accrued interest	Increase (decrease) valuation	Carrying amount	Carrying amount
Unrestricted:					
Equity shares, net	\$ 872	–	(4)	868	394
American Depositary Receipts (ADRS)	56	–	(3)	53	1,347
Sovereign debt Eurobonds	1,059	17	7	1,083	1,432
Fixed-rate government bonds	10,161	111	(57)	10,215	10,797
Federal Mexican Treasury Securities (CETES)	5,026	–	(17)	5,009	10,888
Federal Government Development Bonds (BONDES)	57,963	56	(4)	58,015	4,297
Corporate Eurobonds	1,151	5	(1)	1,155	2,501
Bank securitized debt certificates	1,539	10	(6)	1,543	–
Securitized debt certificates	6,381	60	(16)	6,425	4,911
Exchangeable securitized debt certificates (CBICS)	1,282	18	6	1,306	–
Federal Government Development Bonds in UDIs (UDIBONOS)	713	1	11	725	370
Mexican Bank Saving Protection Bonds (BPAS)	15,221	240	16	15,477	10,335
Treasury notes	407	2	1	410	508
Total unrestricted securities	<u>101,831</u>	<u>520</u>	<u>(67)</u>	<u>102,284</u>	<u>47,780</u>
Restricted securities:					
Collateral granted (a.1.)	186,559	1,469	(318)	187,710	241,249
Value date purchases (a.2.)	6,911	53	(6)	6,958	7,606
Value date sales (a.3.)	(7,165)	(50)	(6)	(7,221)	(14,715)
Total	<u>\$ 288,136</u>	<u>1,992</u>	<u>(397)</u>	<u>289,731</u>	<u>281,920</u>

During 2021 and 2020, the Institution recognized losses of \$(1,216) and gains of \$1,061, respectively, on valuation of unrestricted securities (note 30).

(Continued)



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Additionally, as of December 31, 2021 and 2020, residual terms of these unrestricted investments are as follows:

Instrument	2021				Total acquisition cost
	Less than 1 month	Between 1 and 3 months	More than 3 months	Without fixed term	
Unrestricted securities:					
Equity shares, net	\$ -	-	-	872	872
ADRS	-	-	-	56	56
Sovereign debt Eurobonds	-	-	1,059	-	1,059
Fixed-rate government bonds	-	41	10,120	-	10,161
CETES	217	1,146	3,663	-	5,026
BONDES	216	6	57,741	-	57,963
Corporate Eurobonds	67	-	1,084	-	1,151
Bank securitized debt certificates	-	-	1,539	-	1,539
Securitized debt certificates	144	565	5,672	-	6,381
UDIBONOS	-	-	713	-	713
BPAS	-	8,772	6,449	-	15,221
Treasury notes	-	-	407	-	407
CBICS	-	-	1,282	-	1,282
Total	\$ 644	10,530	89,729	928	101,831
Instrument	2020				Total acquisition cost
	Less than 1 month	Between 1 and 3 months	More than 3 months	Without fixed term	
Unrestricted securities:					
Equity shares, net	\$ -	-	-	387	387
ADRS	-	-	-	1,288	1,288
Sovereign debt Eurobonds	-	-	1,307	-	1,307
Fixed-rate government bonds	-	-	10,742	-	10,742
CETES	2,848	5,444	2,590	-	10,882
BONDESD	-	-	4,292	-	4,292
Corporate Eurobonds	-	983	1,484	-	2,467
Securitized debt certificates	855	298	3,747	-	4,900
UDIBONOS	-	-	347	-	347
BPAS	-	5	10,205	-	10,210
Treasury notes	-	-	500	-	500
Total	\$ 3,703	6,730	35,214	1,675	47,322

(Continued)



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a.1. Collateral granted as of December 31, 2021 and 2020 are comprised as follows:

Instrument	2021			2020	
	Acquisition cost	Accrued interest	Increase (decrease) valuation	Carrying amount	Carrying amount
Collateral under securities lending:					
IPAB bond	\$ 11,545	178	5	11,728	20,464
Fixed-rate government bonds	–	–	–	–	30,130
Equity shares, net	12	–	1	13	–
BONDES	44,866	22	(2)	44,886	12,585
Securitized debt certificates	–	–	–	–	2
Total collateral under securities lending:	56,423	200	4	56,627	63,181
Collateral under repurchase/resale agreements:					
Bank securitized debt certificates	1,542	3	(109)	1,436	789
BONDES	42,435	49	2	42,486	42,482
Fixed-rate government bonds	24,499	346	(146)	24,699	31,034
BPAS	43,909	698	22	44,629	57,101
CETES	8,182	–	(11)	8,171	19,227
UDIBONOS	–	–	–	–	2,976
CBICS	6,290	124	(60)	6,354	18,548
Eurobonds	–	–	–	–	246
Securitized debt certificates	1,328	16	(16)	1,328	2,849
Total collateral under repurchase/resale agreements	128,185	1,236	(318)	129,103	175,252
Other collateral:					
Fixed-rate government bonds	1,022	22	(2)	1,042	–
BPAS	565	8	(1)	572	2,162
CETES	–	–	–	–	654
Securitized debt certificates	146	2	(1)	147	–
Corporate Eurobonds	110	1	–	111	–
Treasury notes	108	–	–	108	–
Total other collateral	1,951	33	(4)	1,980	2,816
Total restricted securities by collateral granted	\$ 186,559	1,469	(318)	187,710	241,249

(Continued)



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a.2. Value date purchases as of December 31, 2021 and 2020 are comprised as follows:

Instrument	Acquisition cost	2021			2020
		Accrued interest	Increase (decrease) valuation	Carrying amount	Carrying amount
Equity shares, net	\$ 228	–	(4)	224	131
ADRS	218	–	(3)	215	99
Fixed-rate government bonds	5,754	52	1	5,807	5,470
BONDES	126	–	–	126	–
CETES	56	–	–	56	129
UDIBONOS	529	1	–	530	1,379
Securitized debt certificates	–	–	–	–	114
Sovereign debt Eurobonds	–	–	–	–	284
Total	\$ 6,911	53	(6)	6,958	7,606

a.3. Value date sales as of December 31, 2021 and 2020 are comprised as follows:

Instrument	2021			2020	
	Acquisition cost	Accrued interest	Increase (Decrease) valuation	Carrying amount	Carrying amount
Equity shares, net	\$ (203)	–	(9)	(212)	(7)
ADRS	(220)	–	4	(216)	(59)
BPAS	–	–	–	–	(1,825)
Fixed-rate government bonds	(6,383)	(49)	(1)	(6,433)	(11,729)
Corporate Eurobonds	–	–	–	–	(28)
UDIBONOS	(359)	(1)	–	(360)	(758)
Securitized debt certificates	–	–	–	–	(309)
Total	\$ (7,165)	(50)	(6)	(7,221)	(14,715)

During 2021 and 2020, the Institution recognized profits of \$31 and losses of \$(2,139), respectively, on valuation of restricted securities from collateral granted (note 30).

For the years ended December 31, 2021 and 2020, returns associated with all the securities to be traded recorded in the income of the year amount to \$17,713 and \$21,127, respectively, (note 28).

(Continued)



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b. Available for sale

Instrument	2021			2020	
	Acquisition cost	Accrued interest	Increase (Decrease) valuation	Carrying amount	Carrying amount
Unrestricted securities:					
Equity shares, net	\$ 525	–	151	676	819
CETES	6,906	–	(25)	6,881	2,007
Sovereign debt Eurobonds	27,292	323	93	27,708	31,270
Corporate Eurobonds	2,394	57	37	2,488	4,213
Fixed-rate government bonds	89,892	680	(4,774)	85,798	23,829
BPAS	14,212	236	11	14,459	15,112
Bank securitized debt certificates	17	–	(1)	16	–
Securitized debt certificates	1,539	87	(95)	1,531	1,711
CEDES	–	–	–	–	171
BREMS R ⁽¹⁾	32,667	45	(17)	32,695	32,682
UDIBONOS	680	1	1	682	418
Total unrestricted	176,124	1,429	(4,619)	172,934	112,232
Restricted ^(b.1.)	50,702	808	(2,553)	48,957	99,556
	<u>\$ 226,826</u>	<u>2,237</u>	<u>(7,172)⁽²⁾</u>	<u>221,891</u>	<u>211,788</u>

⁽¹⁾ BREMS R are part of the monetary regulation deposit (note 4).

⁽²⁾ As of December 31, 2021, the result of the valuation of securities available for sale is presented in the accumulated OCI of the negative valuation effect of \$1,253 of the derivatives covered by said securities position.

As of December 31, 2021 and 2020, the remaining scheduled maturities of the available for sale instruments are as follows:

Instrument	2021				Total Acquisition cost
	Less than 1 month	Between 1 and 3 months	More than 3 months	Without fixed term	
Unrestricted:					
Equity shares, net	\$ –	–	–	525	525
CETES	–	–	6,906	–	6,906
Sovereign debt Eurobonds	–	–	27,292	–	27,292
Corporate Eurobonds	308	–	2,086	–	2,394
BPAS	–	–	14,212	–	14,212
Bank securitized debt certificates	–	–	17	–	17
Securitized debt certificates	–	–	1,539	–	1,539
BREMS R	–	–	32,667	–	32,667
UDIBONOS	–	–	680	–	680
Fixed-rate government bonds	–	–	89,892	–	89,892
Total unrestricted	<u>\$ 308</u>	<u>–</u>	<u>175,291</u>	<u>525</u>	<u>176,124</u>

(Continued)



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Instrument	2020				Total Acquisition cost
	Less than 1 month	Between 1 and 3 months	More than 3 months	Without fixed term	
Unrestricted:					
Equity shares, net	\$ -	-	-	528	528
CETES	-	-	1,979	-	1,979
Sovereign debt Eurobonds	-	-	29,405	-	29,405
Corporate Eurobonds	-	-	3,938	-	3,938
Fixed-rate government bonds	-	-	23,153	-	23,153
BPAS	-	-	14,881	-	14,881
Securitized debt certificates	-	-	1,616	-	1,616
CEDES	-	89	-	-	89
BREMS R	-	-	32,649	-	32,649
UDIBONOS	-	-	404	-	404
Total unrestricted	\$ -	89	108,025	528	108,642

b.1. Collateral granted (restricted securities) of investments available for sale as of December 31, 2021 and 2020 are as follows:

Instrument	2021				2020
	Acquisition cost	Accrued interest	Increase (decrease) valuation	Carrying amount	Carrying amount
Securitized debt certificates	\$ -	-	-	-	212
Fixed-rate government bonds	-	-	-	-	5,103
Corporate Eurobonds	-	-	-	-	195
Securities lending	-	-	-	-	5,510
Fixed-rate government bonds	41,290	700	(2,397)	39,593	85,421
Securitized debt certificates	3,415	42	(110)	3,347	2,666
BPAS	700	11	1	712	-
Bank securitized debt certificates	1,587	20	(119)	1,488	-
Corporate Eurobonds	2,480	35	72	2,587	4,665
Repurchase collaterals	49,472	808	(2,553)	47,727	92,752
Treasury bills	1,230	-	-	1,230	1,294
Total restricted	\$ 50,702	808	(2,553)	48,957	99,556

For the years ended December 31, 2021 and 2020, returns associated with the Institution's securities available for sale recorded in the results of the year, amount to \$12,451 and \$8,976, respectively (note 28).

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c. Held to maturity

Instrument	2021			2020
	Acquisition cost	Accrued interest	Carrying amount	Carrying amount
Mortgage Debtor Support Program – Special CETES (note 9)	\$ 18,887	3	18,890	18,085
Fixed-rate government bonds	53,083	702	53,785	63,145
	<u>\$ 71,970</u>	<u>705</u>	<u>72,675</u>	<u>81,230</u>

For the years ended December 31, 2021 and 2020, the yields related to the overall held to maturity portfolio, recorded in the results of the year, amounted to \$805 and \$977, respectively (note 28).

d. Received/Pledged Collateral

The terms and conditions for the delivery of securities as collateral are in line with the master service agreements of Repurchase Agreements, Securities Loans, and Derivatives (ISDA/CEMOF). These contracts establish the exchange of collateral, which will help mitigate the credit risk, in order to have a reasonable level of collateral; the collateral received or pledged does not fulfill criteria for transfer of ownership, then the entity providing the collateral retains the corporate and economic rights of such instruments, unless there is default on the secured obligations. However, these master service agreements stipulate the temporary use and enjoyment of such securities with the commitment to return them at maturity of the guarantee transaction or margin return calls due to a drop in the guaranteed value at risk.

As a result of the collateral exchange agreements of financial institutions which have a negative market value, a commitment is made to deliver or receive to the other party (which therefore presents a positive market value) assets, liabilities or cash to reduce the exposure for credit risk, under the terms stipulated in the aforementioned bilateral contract.

As of December 31, 2021 and 2020, there are no investments in debt securities of one issuer other than government bonds exceeding 5% of the global capital of the Institution.

(7) Repurchase transactions and securities lending

a. Repurchase agreement receivables

As of December 31, 2021 and 2020, repurchase transactions are comprised as follows:

Instrument	2021			2020		
	Asset	Liability		Asset	Liability	
	Receivable under repurchase agreement	Collateral sold/pledged	Debit difference	Receivable under repurchase agreement	Collateral sold/pledged	Debit difference
BONDES	\$ 11,085	11,085	–	5,904	2,236	3,668
Fixed-rate government bonds	2,040	2,040	–	43,082	32,913	10,169
BPAS	37	–	37	9,001	7,715	1,286
CETES	1,075	1,075	–	97	97	–
Total	<u>\$ 14,237</u>	<u>14,200</u>	<u>37</u>	<u>58,084</u>	<u>42,961</u>	<u>15,123</u>

(Continued)



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b. Creditors on repurchase/resale agreements

As of December 31, 2021 and 2020, creditors on repurchase/resale agreements are comprised as follows:

Instrument	2021	2020
BONDES	\$ 41,922	42,217
Fixed-rate government bonds	63,308	114,280
BPAS	44,443	56,167
Securitized debt certificates	4,348	7,273
Bank bonds	3,930	–
CETES	8,173	18,685
CBICS	6,356	17,426
Corporate Eurobonds	–	863
Sovereign debt Eurobonds	1,493	3,834
UDIBONOS	–	2,971
Total	\$ 173,973	263,716

As of December 31, 2021 and 2020, interest (premiums) receivable recorded by the Institution were \$1,993 and \$3,341, respectively which is presented in the consolidated statements of income under “Interest income”. Also, as of December 31, 2021 and 2020, the interest (premiums) charged to the Institution under “Interest expense” were \$15,914 and \$17,965, respectively, see note 28.

c. Collateral sold/pledged in repurchase/resale agreements and securities lending transactions as of December 31, 2021 and 2020 are as follows:

Instrument	2021			2020		
	Memorandum accounts		Liability	Memorandum accounts		Liability
	Collateral received	Collateral received and sold or pledged	Collateral sold/pledged	Collateral received	Collateral received and sold or pledged	Collateral sold/pledged
Securities lending:						
Fixed-rate government bonds	\$ 25,393	24,088	24,088	35,887	35,887	35,887
UDIBONOS	8,972	8,627	8,627	8,229	8,229	8,229
CETES	10,732	10,135	10,135	7,529	7,529	7,529
CBICS	10,145	–	–	11,721	11,721	11,721
Equity shares, net	81	68	68	475	475	475
	<u>55,323</u>	<u>42,918</u>	<u>42,918</u>	<u>63,841</u>	<u>63,841</u>	<u>63,841</u>
Repurchase agreements:						
BONDES	11,084	11,084	–	5,908	2,235	–
Fixed-rate government bonds	2,041	1,601	(440)	43,089	33,018	–
BPAS	–	–	–	8,968	7,715	–
CETES	1,075	1,193	118	97	97	–
CBICS	–	10,145	10,145	–	–	–
	<u>14,200</u>	<u>24,023</u>	<u>9,823</u>	<u>58,062</u>	<u>43,065</u>	<u>–</u>
Other collateral received	10,194	–	–	9,683	–	–
Total	\$ 79,717	66,941	52,741	131,586	106,906	63,841

Interest payable from collateral sold and pledged in repo transactions and securities lending recognized in profit or loss for the years ended December 31, 2021 and 2020 amounted to \$224 and \$1,102, respectively, see note 28.

As of December 31, 2021 and 2020, the Institution has repurchase agreements for an average period of 7 and 4 days, respectively; while transactions of securities lending are performed over an average period of 10 and 39 days, respectively.

(Continued)



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(8) Derivatives

As of December 31, 2021 and 2020, securities and derivative transactions are as follows:

- a. As of December 31, 2021 and 2020, the Institution carries out transactions with derivative financial instruments as described below. Foreign currency position arising from such derivative financial instruments is shown in the assets and liabilities position shown in note 25.

Trading:

	2021			
	Carrying amount		Balance	
	Assets	Liabilities	Asset	Liability
Futures long position	\$ 39,063	39,063	–	–
Futures short position	14,517	14,517	–	–
Forwards long position	731,343	742,994	4,798	16,449
Forwards short position	738,238	729,655	13,249	4,666
Purchased options	4,918	–	4,918	–
Sold options	–	20,147	–	20,147
Swaps	1,325,354	1,325,402	110,949	110,997
	<u>\$ 2,853,433</u>	<u>2,871,778</u>	<u>133,914</u>	<u>152,259</u>

	2020			
	Carrying amount		Balance	
	Assets	Liabilities	Assets	Liabilities
Futures long position	\$ 40,897	40,897	–	–
Futures short position	2,720	2,720	–	–
Forwards long position	562,812	584,848	3,258	25,294
Forwards short position	558,092	538,046	23,799	3,753
Purchased options	4,539	–	4,539	–
Sold options	–	13,886	–	13,886
Swaps	1,096,676	1,098,704	166,010	168,038
	<u>\$ 2,265,736</u>	<u>2,279,101</u>	<u>197,606</u>	<u>210,971</u>

Hedging:

	2021				
	Par value		Balance		Net position
	Assets	Liabilities	Assets	Liabilities	
Forwards long position	\$ 3,971	4,019	6	54	(48)
Swaps	87,240	80,770	12,782	6,312	6,470
	<u>\$ 91,211</u>	<u>84,789</u>	<u>12,788</u>	<u>6,366</u>	<u>6,422</u>

	2020				
	Par value		Balance		Net position
	Assets	Liabilities	Assets	Liabilities	
Forwards long position	\$ 36,786	37,248	36	498	(462)
Swaps	92,755	88,842	16,285	12,372	3,913
	<u>\$ 129,541</u>	<u>126,090</u>	<u>16,321</u>	<u>12,870</u>	<u>3,451</u>

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- b. Future and forward contracts –As of December 31, 2021, the Institution carried out transactions in Organized Markets (Mexican Derivatives Market (Mex-Der) and Chicago) obtaining a profit of \$328, distributed in Rates for \$(206), Currencies for \$539, Indexes for \$21 and Securities for \$(26). For the year ended December 31, 2020, the Institution carried out transactions in Organized Markets (Mex-Der and Chicago) obtaining a profit of \$16,525, distributed in Rates for \$1,683, Currencies for \$16,892, Indexes for \$(2,099) and Securities for \$49.

As of December 31, 2021, the open future contracts and forward contracts are shown below:

Trading:

Type of transaction	Underlying	Sales		Purchases		Net position
		Receivable	Contract value	Contract value	Payable	
Futures	US dollars	\$ 13,813	13,813	38,609	38,609	—
	Index	704	704	17	17	—
	DC24 Bond	—	—	437	437	—
		\$ 14,517	14,517	39,063	39,063	—

Type of transaction	Underlying	Sales		Purchases		Net position
		Receivable	Contract value	Contract value	Payable	
Forwards	US dollars	\$ 711,752	702,569	699,030	712,700	(4,487)
	Equity	26,486	27,086	32,313	30,294	1,419
		\$ 738,238	729,655	731,343	742,994	(3,068)

Hedging:

Type of transaction	Underlying	Sales		Purchases		Net position
		Receivable	Contract value	Contract value	Payable	
Forwards	US dollars	\$ —	—	3,971	4,019	(48)

At year end 2020, the following contracts were open:

Trading:

Type of transaction	Underlying	Sales		Purchases		Net position
		Receivable	Contract value	Contract value	Payable	
Futures	US dollars	\$ 1,527	1,527	40,324	40,324	—
	Index	272	272	—	—	—
	DC24 Bond	—	—	401	401	—
	S&P	921	921	172	172	—
		\$ 2,720	2,720	40,897	40,897	—

Type of transaction	Underlying	Sales		Purchases		Net position
		Receivable	Contract value	Contract value	Payable	
Forwards	US dollars	\$ 531,154	510,597	543,557	566,309	(2,195)
	Equity	26,938	27,449	15,310	14,876	(77)
	Index	—	—	3,945	3,663	282
	\$ 558,092	538,046	562,812	584,848	(1,990)	

Hedging:

Sales	Purchases	Net
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<u>Type of transaction</u>	<u>Underlying</u>	<u>Receivable</u>	<u>Contract value</u>	<u>Contract value</u>	<u>Payable</u>	<u>position</u>
Forwards	US dollars	\$ —	—	36,786	37,248	(462)

c. Options - As of December 31, 2021, options transactions are as follows:

Trading:

	<u>Type of transaction</u>	<u>Underlying</u>	<u>Reference amount</u>	<u>Contract value</u>
Purchases	OTC Options ⁽¹⁾	US dollars	\$ 77,245	\$ 2,967
		Interest rates	60,208	860
		Equity and Indexes	23,533	991
				<u>4,818</u>
	OM Options ⁽²⁾	Equity and Indexes	\$ 1,325	100
			<u>\$ 4,918</u>	
Sales	OTC Options ⁽¹⁾	US dollars	\$ 79,560	\$ 2,879
		Interest rates	96,232	699
		Equity and Indexes	20,277	16,534
				<u>20,112</u>
	OM Options ⁽²⁾	Equity and Indexes	\$ 2,159	35
			<u>\$ 20,147</u>	

As of December 31, 2020, options transactions are show are as follows:

	<u>Type of transaction</u>	<u>Underlying</u>	<u>Reference amount</u>	<u>Contract value</u>
Purchases	OTC Options ⁽¹⁾	US dollars	\$ 59,079	\$ 2,491
		Interest rates	51,831	689
		Equity and Indexes	8,462	513
				<u>3,693</u>
	OM Options ⁽²⁾	Equity and Indexes	\$ 13,509	846
			<u>\$ 4,539</u>	
Sales	OTC Options ⁽¹⁾	US dollars	\$ 61,102	\$ 2,024
		Interest rates	97,641	306
		Equity and Indexes	11,511	10,629
				<u>12,959</u>
	OM Options ⁽²⁾	Equity and Indexes	\$ 17,346	927
	US dollars	20	—	
			<u>927</u>	
			<u>\$ 13,886</u>	

⁽¹⁾ OTC (Over the Counter)

⁽²⁾ OM (Organized Markets)

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d. Swaps - As of December 31, 2021, the Institution swaps transactions are as follows:

Trading:

<u>Underlying</u>	<u>Currency</u>	<u>Contract value receivable</u>	<u>Contract value payable</u>	<u>Receivable</u>	<u>Payable</u>	<u>Net position</u>
Currencies	Peso	\$ 145,993	141,941	\$ 195,460	198,694	(3,234)
	USD	185,770	172,103	198,432	164,596	33,836
	UDIS	56,454	54,319	—	—	—
	Euro	41,916	63,081	43,566	69,413	(25,847)
	Yen	—	107	—	107	(107)
	COP	2,046	—	—	—	—
	GBP	1,389	1,389	1,654	1,665	(11)
	CLP	2,851	—	—	—	—
				439,112	434,475	4,637
			Notional amount			
Interest rates	Peso ⁽¹⁾		\$ 5,353,165	783,699	785,879	(2,180)
	Euro		119,616	1,156	1,413	(257)
	USD		1,264,529	101,298	101,903	(605)
	COP		378	10	6	4
				886,163	889,201	(3,038)
Equity	Peso	\$ 3,455		60	969	(909)
	USD	1,682		43	500	(457)
				103	1,469	(1,366)
CDS	USD	\$ 615		23	26	(3)
	Subtotal			1,325,401	1,325,171	230
Valuation adjustments				(47)	231	(278)
	Total			\$ 1,325,354	1,325,402	(48)

⁽¹⁾ The Institution entered into nominal interest rate swaps in Mexican pesos with various institutions at annual rates ranging from 0.64% and 20.26%.

(Continued)



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As of December 31, 2020, the swaps agreements are as follows:

Trading:

<u>Underlying</u>	<u>Currency</u>	<u>Contract value receivable</u>	<u>Contract value payable</u>	<u>Receivable</u>	<u>Payable</u>	<u>Net position</u>
Currencies	Peso	\$ 134,799	128,877	\$ 198,033	196,552	1,481
	USD	168,662	149,149	188,095	154,025	34,070
	UDIS	58,097	61,672	–	–	–
	Euro	40,113	64,847	42,233	74,437	(32,204)
	Yen	–	159	–	160	(160)
	COP	2,185	–	–	–	–
	GBP	1,360	1,360	1,747	1,775	(28)
	CLP	3,336	–	–	–	–
				<u>430,108</u>	<u>426,949</u>	<u>3,159</u>
			Notional amount			
Interest rates	Peso ⁽¹⁾		\$ 4,137,165	576,867	580,667	(3,800)
	Euro		144,507	214	583	(369)
	USD		1,462,904	89,425	89,853	(428)
	COP		708	41	14	27
				<u>666,547</u>	<u>671,117</u>	<u>(4,570)</u>
Equity	Peso		\$ 3,518	105	289	(184)
	USD		1,101	34	147	(113)
				<u>139</u>	<u>436</u>	<u>(297)</u>
CDS	USD		\$ 199	2	3	(1)
	Subtotal			<u>1,096,796</u>	<u>1,098,505</u>	<u>(1,709)</u>
Valuation adjustments				<u>(120)</u>	<u>199</u>	<u>(319)</u>
Total				<u>\$ 1,096,676</u>	<u>1,098,704</u>	<u>(2,028)</u>

⁽¹⁾ In 2020, the Institution entered into nominal interest rate swaps in Mexican pesos with various institutions at annual rates ranging from 3.50% and 20.96%.

Swaps for hedging purposes:

As of December 31, 2021, swaps for hedging purposes are as follows:

Fair value hedging

<u>Underlying</u>	<u>Currency</u>	<u>Contract value receivable</u>	<u>Contract value payable</u>	<u>Receivable</u>	<u>Payable</u>	<u>Net position</u>
Currencies	Peso	\$ 6,164	14,585	\$ 6,233	14,887	(8,654)
	USD	22,633	2,487	24,303	2,702	21,601
	GBP	–	1,311	–	1,423	(1,423)
	Euro	–	4,690	–	5,074	(5,074)
					<u>30,536</u>	<u>24,086</u>
			Notional amount			
Interest rates	Peso ⁽¹⁾		\$ 24,803	11,458	11,323	135
	USD		74,710	20,714	18,374	2,340
				<u>32,172</u>	<u>29,697</u>	<u>2,475</u>
				<u>62,708</u>	<u>53,783</u>	<u>8,925</u>

(Continued)



**BBVA México, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA México
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Cash flow hedging

<u>Underlying</u>	<u>Currency</u>	<u>Contract value receivable</u>	<u>Contract value payable</u>	<u>Receivable</u>	<u>Payable</u>	<u>Net position</u>
Currencies	Peso	\$ 21,253	–	22,139	–	22,139
	USD	–	12,887	–	14,115	(14,115)
	Euro	–	8,792	–	9,386	(9,386)
				22,139	23,501	(1,362)
			Notional amount			
Interest rates	Peso		\$ 30,890	2,393	3,486	(1,093)
				24,532	26,987	(2,455)
	Total			\$ 87,240	80,770	6,470

⁽¹⁾ As of December 31, 2021, the Institution entered into nominal interest rate swaps in MXN with several institutions at annual rates ranging from 4.62% and 8.91%.

As of December 31, 2020, they are as follows:

Fair value hedging

<u>Underlying</u>	<u>Currency</u>	<u>Contract value receivable</u>	<u>Contract value payable</u>	<u>Receivable</u>	<u>Payable</u>	<u>Net position</u>
Currencies	Peso	\$ 14,489	14,649	\$ 14,766	15,285	(519)
	USD	21,972	4,651	24,862	5,100	19,762
	GBP	–	1,283	–	1,473	(1,473)
	Euro	–	14,793	–	16,313	(16,313)
				39,628	38,171	1,457
			Notional amount			
Interest rates	Peso ⁽¹⁾		\$ 34,819	12,441	15,185	(2,744)
	USD		77,829	23,854	18,462	5,392
				36,295	33,647	2,648
				75,923	71,818	4,105

Cash flow hedging

<u>Underlying</u>	<u>Currency</u>	<u>Contract value receivable</u>	<u>Contract value payable</u>	<u>Receivable</u>	<u>Payable</u>	<u>Net position</u>
Currencies	Peso	\$ 13,301	–	15,340	–	15,340
	USD	–	13,618	–	15,566	(15,566)
	Euro	–	170	–	186	(186)
				15,340	15,752	(412)
			Notional amount			
Interest rates	Peso		\$ 14,890	1,492	1,272	220
				16,832	17,024	(192)
	Total			\$ 92,755	88,842	3,913

⁽¹⁾ As of December 31, 2020, the Institution entered into nominal interest rate swaps in MXN with several institutions at annual rates ranging from 4.48% and 8.91%.

(Continued)



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Collaterals received in derivatives as of December 31, 2021 and 2020 are recorded under “Creditors on cash received as collateral” as shown below:

Collateral received in cash in derivative transactions	Acquisition Cost	2021		2020
		Accrued interest	Carrying amount	Carrying amount
Actinver Casa de Bolsa, S. A. de C. V.	\$ -	-	-	2
Alsea S. A. B. de C. V.	87	-	87	298
Banca Afirme, S. A. IBM	12	-	12	11
Banca Mifel, S. A. IBM	-	-	-	20
Banco Actinver, S. A.	-	-	-	44
Banco Base, S. A. IBM	-	-	-	42
BNP Paribas	631	-	631	-
Banco Bilbao Vizcaya Argentaria, S. A.	347	-	347	-
Banco Bilbao Vizcaya Argentaria de Colombia, S. A. 58	-	58	3	-
Banco del Bajío, S. A. IBM	-	-	-	1
Banco Inbursa, S. A. IBM	900	-	900	2,271
Banco Invex, S. A. IBM	-	-	-	66
Banco Mercantil del Norte, S. A. IBM	967	-	967	-
Banco Nacional de Obras y Servicios Públicos, S.N.C.	213	1	214	4,128
Banco del Bajío S. A. IBM	6	-	6	-
Banco Nacional de Comercio Exterior	973	5	978	-
Banco Monex, S. A. IBM	4	-	4	62
Banco Regional, S. A. IBM	76	-	76	518
Banco Santander México, S. A. IBM	564	-	564	400
Banco Ve por más, S. A. IBM	-	-	-	161
Bank of America México IBM (formerly Bank of AmericaMerril Lynch)	98	-	98	31
Casa de Bolsa Vector S. A. de C. V.	20	-	20	10
Compañía Nacional Almacenadora, S. A. de C. V.	-	-	-	17
Credit Agricole CIB	1,085	-	1,085	1,362
Credit Suisse International	748	-	748	677
Chace JP Morgan	2	-	2	2
Deutsche Bank	2,229	-	2,229	1,503
Goldman Sachs México Casa de Bolsa	1,432	-	1,432	2,010
Grupo Axo, S. A. P. I. de C. V.	-	-	-	18
Intercam Banco, S. A. IBM	-	-	-	13
Intercam Casa de Bolsa, S. A. de C. V.	11	-	11	16
J. Aron & Company	845	-	845	800
Standar Chartered Bank	16	-	16	-
Masari Casa de Bolsa, S. A. de C. V.	4	-	4	15
Mizuho Bank México IBM	1	-	1	2
Morgan Stanley & CO	29	-	29	-
Morgan Stanley S A S	397	-	397	292
MUFG Bank México IBM	49	-	49	80
Nacional Financiera, S. N. C.	660	3	663	638
Natixis	3,376	1	3,377	2,237
Scotiabank Chile	-	-	-	246
Bank of Nova Scotia	5	-	5	-
UBS AG	74	-	74	-
Collateral received in cash in derivative transactions	15,919	10	15,929	17,996
Collateral received in cash other than in derivative transactions	<u>1,052</u>	-	<u>1,052</u>	<u>1,766</u>
	\$ 16,971	10	16,981	19,762
	=====	==	=====	=====

As of December 31, 2021 and 2020, the institution recorded collaterals received in memorandum accounts under “Collateral received by the Institution” in the amount of \$10,081 and \$4,586, respectively.

(Continued)



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e. Transactions with embedded derivatives

Embedded derivatives as of December 31, 2021 and 2020 shown below are part of the derivatives for trading balances.

	2021			
	Carrying amount		Balance	
	Asset	Liability	Asset	Liability
Options acquired	\$ 166	—	166	—
Options sold	—	202	—	202
Swaps	897	903	28	34
	<u>\$ 1,063</u>	<u>1,105</u>	<u>194</u>	<u>236</u>

	2020			
	Carrying amount		Balance	
	Asset	Liability	Asset	Liability
Options acquired	\$ 129	—	129	—
Options sold	—	136	—	136
Swaps	1,522	1,580	60	118
	<u>\$ 1,651</u>	<u>1,716</u>	<u>189</u>	<u>254</u>

e.1. Embedded options (Underlying)

Trading:

		Underlying	2021	
			Par value	Fair value
Purchases	OTC Options	USD	\$ 1,744	6
		Interest rates	17,213	160
			<u>\$ 166</u>	

		Underlying	2021	
			Par value	Fair value
Sales	OTC Options	USD	\$ 958	26
		Interest rates	868	9
		Index	2,313	167
			<u>\$ 202</u>	

(Continued)



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		Underlying	2020	
			Par value	Fair value
Purchases	OTC Options	USD	\$ 1,211	6
		Interest rates	11,513	123
				\$ 129
			2020	
		Underlying	Par value	Fair value
Sales	OTC Options	USD	\$ 1,135	6
		Interest rates	2,176	1
		Index	1,263	129
				\$ 136

e.2 Embedded swaps (Underlying)

Trading:

		2021				
Underlying	Currency	Notional amount	Market value receivable	Market value payable	Fair value	
Currencies	Peso	\$ 68	68	68	-	
	USD	73	75	75	-	
			143	143	-	
Interest rate	Peso	\$ 8,605	290	296	(6)	
	USD	463	464	464	-	
			754	760	(6)	
			\$ 897	903	(6)	
			2020			
Underlying	Currency	Notional amount	Market value receivable	Market value payable	Fair value	
Currencies	Peso	\$ 717	720	723	(3)	
	USD	799	652	650	2	
			1,372	1,373	(1)	
Interest rate	Peso	\$ 5,798	150	207	(57)	
	USD	100	-	-	-	
			150	207	(57)	
			\$ 1,522	1,580	(58)	

e.3 Embedded forwards (Underlying)

As of December 31, 2021 and 2020, the Institution does not have embedded forwards.

According to the Structured Banking Bonds issuance programs, the Institution has recorded options and embedded swaps with par value of \$23,096 and \$9,210, respectively, (options and embedded swaps with par value of \$17,298 and \$7,414, respectively, as of December 31, 2020) with underlying interest rates for Swaps and Currencies, Indexes and Interest Rates for the options.

(Continued)



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As of December 31, 2021, the Institution has entered into the following hedge contracts:

Type of hedge relationship: Cash Flow

Description of hedge item	Hedge risk	Hedge instrument	Maximum maturity date of hedge	Hedge instrument fair value	Periods in which flows affect results	Amount recognized in comprehensive income of period	Amount reclassified from equity to income statement	Item in consolidated income statement where hedge is applied	Item in consolidated balance sheet where primary position is recognized	Ineffectiveness recognized
Partial hedge of Monetary Regulation Deposit (DRM)	Variable flows from DRM	24 IRS FIXED/TIIE	Jan-25	\$ (1,077)	37 months	\$ (1,286)	\$ 1,286	Interest margin from cash and cash equivalents	Restricted cash	\$ -
Expenses and investment hedge in USD and EUR	Variation of exchange rate in estimated expense cash flows	5 FWD SALE USD/MXN 19 FWD SALE EUR/MXN	Dec-22	\$ (49)	12 months	\$ 297	\$ (359)	Expenses	Property, plant and equipment, advertising, computing	\$ -
Cash flow hedge UMS, USD and EUR	Change from fixed currency to domestic fixed currency	78 CCS FIXED/FIXED EUR	Oct-33	\$ (1,725)	144 months	\$ -	\$ (1,182)	Interest margin from investments in securities	Investment in securities	\$ 1
Cash flow hedge CCS Corporate bonds	Change from fixed currency to fixed domestic	1 CCS FIXED/FIXED USD	Jul-25	\$ (23)	44 months	\$ -	\$ (31)	Interest margin from investments in securities	Investment in securities	\$ -
Cash Flow Hedge IRS Corporate Bonds	Change from floating to fixed currency	3 IRS FIXED/VAR MXN	Oct-23	\$ (23)	22 months	\$ -	\$ (26)	Interest margin from investments in securities	Investment in securities	\$ (1)

*To this date, all cash flows from forecasted transactions have occurred within the terms initially agreed upon.

(Continued)



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Type of hedge relationship: Fair Value

<u>Description of hedge item</u>	<u>Nature of hedge risk</u>	<u>Hedge instrument</u>	<u>Maximum maturity date of hedge</u>	<u>Hedge instrument fair value</u>	<u>Gain/Loss of hedge instrument as of December 2021</u>	<u>Gain/Loss of hedge item as of December 2021</u>	<u>Item in balance sheet where primary position is recorded</u>	<u>Ineffectiveness recognized</u>
Hedge of USD and MXN fixed-rate loans to change to floating ⁽¹⁾	USD fixed rate risk and MXN fixed rate loans	2 IRS pays fixed interest in USD and receives floating, 2 IRS pays fixed interest in MXN and receives floating	2040	\$ (222)	\$ 1,923	\$ (1,923)	Performing loan portfolio	\$ 13
Hedge of Mexican sovereign bonds denominated in EUR/USD/GBP ⁽¹⁾	UMS fixed rate bonds in EUR/USD/GBP	31 CCS V/F	2030	\$ (1,582)	\$ 4,256	\$ (4,256)	Investments in securities	\$ (1)
Hedge of issuance of USD subordinated notes ^{(1) and (2)}	USD fixed rate on V/F notes	24 IRS F/V	2029	\$ 1,717	\$ (3,091)	\$ 3,091	Subordinated obligations outstanding	\$ (1)
Hedge of issuance of USD subordinated notes ^{(1) and (2)}	USD fixed rate on V/F notes	16 CCS F/V	2024	\$ 9,336	\$ (257)	\$ 257	Subordinated obligations outstanding	\$ 3
Hedge of corporate bonds ^{(1) and (2)}	Fixed rate in USD, EUR, UDI	18 CCS V/F	2025	\$ (210)	\$ 227	\$ (227)	Investments in securities	\$ -
Hedge of corporate bonds and M bonds ⁽¹⁾	USD fixed rate bonds MXN fixed rate to MXN floating rate	28 IRS V/F (MXN 28)	2027	\$ 307	\$ 1,691	\$ (1,691)	Investments in securities	\$ 7
Securitized debt certificates	floating rate	2 IRS F/V	2027	\$ 53	\$ (730)	\$ 730	Issuance of obligations	\$ -

⁽¹⁾ As of December 31, 2021, the balance of interest on the open position of hedging derivatives amounts to \$2,126.

⁽²⁾ As of December 31, 2021, there is an effect for the exchange rate component amounting to \$8,212.

* Cross Currency Swaps (CCS) fair value does not include an exchange rate component, as it is not part of the hedging relationship.

IRS - Interest rate swaps. CCS - Cross currency swaps.

(Continued)



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As of December 31, 2020, the Institution has entered into the following hedge contracts:

Type of hedge relationship: Cash Flow Hedges

Description of hedge item	Hedge risk	Hedge instrument	Maximum maturity date of hedge	Hedge instrument fair value	Periods in which flows affect results	Amount recognized in comprehensive income of period	Amount reclassified from equity to income statement	Item in consolidated income statement where hedge is applied	Item in consolidated balance sheet where primary position is recognized	Ineffectiveness recognized
Partial hedge of Monetary Regulation Deposit (DRM) ⁽¹⁾	Variable flows from DRM	12 IRS FIXED/TIIE	Dec-24	\$ 209	48 months	\$ 241	\$ (20)	Interest margin from cash and cash equivalents	Restricted cash	\$ -
Expenses and investment hedge in USD and EUR ⁽¹⁾	Variation of exchange rate in estimated expense cash flows	22 FWD SALE USD/MXN 1 FWD SALE EUR/MXN	Dec-21	\$ (346)	12 months	\$ (216)	\$ 66	Expenses	Property, plant and equipment, advertising, computing	\$ -
Cash flow hedge UMS USD and EUR	Change from fixed domestic fixed currency	52 CCS FIXED/FIXED USD	Apr-30	\$ (543)	113 months	\$ -	\$ -	Interest margin from investments in securities	Restricted cash	\$ -
Cash flow hedge CCS Corporate bonds	Change from fixed domestic fixed currency	1 CCS FIXED/FIXED USD	Jul-25	\$ 8	56 months	\$ -	\$ -	Interest margin from investments in securities	Restricted cash	\$ -
Cash flow hedge IRS corporate bonds	Change from floating rate to fixed rate	3 IRS FIXED/FIXED MXN	Oct-23	\$ 3	34 months	\$ -	\$ -	Interest margin from investments in securities	Restricted cash	\$ -

⁽¹⁾ As of December 31, 2020, interest balance of hedging derivatives opens position amounts to \$20.

* To this date, all cash flows from forecasted transactions have occurred within the terms initially agreed upon.

(Continued)



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Type of hedge relationship: Fair Value

Description of hedge item	Nature of hedge risk	Hedge instrument	Maximum maturity date of hedge	Hedge instrument fair value	Gain/Loss of hedge instrument as of December 2020	Gain/Loss of hedge item as of December 2020	Item in balance sheet were primary position is recorded	Ineffectiveness recognized
Hedge of USD and MXN fixed-rate loans to change to floating ⁽¹⁾	Fixed Rate Risk on USD and MXN fixed rate loans	2 IRS pays fixed interest in USD and receives Variable, 2 IRS pays fixed interest in MXN and receives Variable	2040	\$ (2,145)	\$ (1,271)	\$ 1,262	Performing loan portfolio	\$ -
Hedge of Mexican sovereign bonds in EUR/USD/GBP ⁽¹⁾	Fixed rate on UMS bonds in EUR/USD/GBP	62 CCS V/F	2025	\$ (5,838)	\$ (107)	\$ 106	Investments in securities	\$ -
Hedge of issuance of subordinated notes in USD ⁽¹⁾	Fixed rate on V/F notes in USD	32 IRS F/V	2029	\$ 4,809	\$ 3,702	\$ (3,712)	Subordinated obligations outstanding	\$ -
Hedge of issuance of subordinated notes in USD ^{(1) and (2)}	Fixed rate on V/F notes	16 CCS F/V	2024	\$ 9,593	\$ 715	\$ (715)	Subordinated obligations outstanding	\$ -
Hedge of corporate bonds ^{(1) and (2)}	Fixed rate on USD, EUR, UDI	31 CCS V/F	2025	\$ (437)	\$ (54)	\$ 37	Investments in securities	\$ -
Hedge of corporate bonds ⁽¹⁾	Fixed rate on USD bonds	45 IRS V/F (43 MXN and 2 USD)	2027	\$ (1,384)	\$ (745)	\$ 744	Investments in securities	\$ -
Asset Hedge Grupo Carso	Fixed rate on EUR loans	3 CCS	2023	\$ -	\$ 589	\$ (581)	Performing loan portfolio	\$ -
Securitized debt certificates	Fixed and floating rate in MXN	3 IRS F/V	2027	\$ 783	\$ (492)	\$ 492	Issuance of obligations	\$ -

⁽¹⁾ As of December 31, 2020, the balance of interest on the open position of hedging derivatives amounts to \$1,889.

⁽²⁾ As of December 31, 2020, there is an effect for the exchange rate component amounting to \$7,560.

* Cross currency swaps (CCS) fair value does not include an exchange rate component, as it is not part of the hedging relationship.

IRS - Interest rate swaps. CCS - Cross currency swaps.

(Continued)



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(9) Loan portfolio

Loans classified by type of loan as of December 31, 2021 and 2020 are as follows:

	Performing portfolio		Non-performing portfolio		Total	
	2021	2020	2021	2020	2021	2020
Commercial loans						
Denominated in MXN:						
Commercial	\$ 346,764	335,753	6,080	11,244	352,844	346,997
Rediscounted portfolio	10,998	10,708	175	166	11,173	10,874
Leases	2,441	2,334	20	21	2,461	2,355
Denominated in UDIs (MXN equivalent):						
Commercial	1	1	2	1	3	2
Denominated in foreign currency (MXN equivalent):						
Commercial	151,269	136,923	892	484	152,161	137,407
Rediscounted portfolio	1,264	977	87	54	1,351	1,031
Leases	2,183	2,182	14	13	2,197	2,195
Commercial or business activity	514,920	488,878	7,270	11,983	522,190	500,861
Denominated in MXN:						
Loans to financial entities	23,469	26,739	–	–	23,469	26,739
Loans to government entities	155,567	147,696	–	–	155,567	147,696
Denominated in foreign currency (MXN equivalent):						
Loans to financial entities	1,224	1,340	–	–	1,224	1,340
Loans to government entities	17,041	13,919	–	–	17,041	13,919
Total commercial loans	712,221	678,572	7,270	11,983	719,491	690,555
Consumer loans						
Denominated in MXN:						
Credit cards	119,656	105,526	3,182	7,620	122,838	113,146
Other consumer loans	183,762	176,335	4,956	8,527	188,718	184,862
Denominated in foreign currency (MXN equivalent):						
Other consumer loans	41	107	–	–	41	107
Total consumer loans	303,459	281,968	8,138	16,147	311,597	298,115
Mortgage loans						
Denominated in MXN:						
Residential and non-residential	264,525	238,717	6,709	8,518	271,234	247,235
Low income	5,819	6,941	310	530	6,129	7,471
Denominated in (MXN equivalent):						
Residential and non-residential	2,811	3,238	272	306	3,083	3,544
Denominated in foreign currency (MXN equivalent):						
Residential and non-residential	10	13	–	–	10	13
Total mortgage loans	273,165	248,909	7,291	9,354	280,456	258,263
Total loan portfolio	\$ 1,288,845	1,209,449	22,699	37,484	1,311,544	1,246,933

(Continued)



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As of December 31, 2021 and 2020, the mortgage loan portfolio includes restricted securitized performing portfolio of \$693 and \$961, respectively, and non-performing portfolio of \$19 and \$28, respectively.

As of December 31, 2021, the commercial loan portfolio includes a restricted portfolio for \$23,620 granted as collateral for the loans received from the Central Bank for \$21,588 (note 19).

Commercial loans are described below; the distressed and non-distressed performing and non-performing portfolios as of December 31, 2021 and 2020, are also identified. This portfolio does not include interest collected in advance, which are shown as part of the commercial portfolio on the consolidated balance sheet.

	2021				
	Distressed		Non-distressed		Total
	Current	Past due	Current	Past due	
Commercial or business	\$ -	6,501	491,287	103	497,891
Loans to financial entities	-	-	24,693	-	24,693
Loans to government entities	-	-	172,608	-	172,608
SME credit cards	-	603	23,800	53	24,456
Corporate credit cards	-	10	222	-	232
Total	\$ -	7,114	712,610	156	719,880

	2020				
	Distressed		Non-distressed		Total
	Current	Past due	Current	Past due	
Commercial or business	\$ -	9,417	463,986	264	473,667
Loans to financial entities	-	-	27,367	-	27,367
Loans to government entities	-	-	161,615	-	161,615
SME credit cards	-	1,449	25,869	846	28,164
Corporate credit cards	-	7	123	-	130
Total	\$ -	10,873	678,960	1,110	690,943

Restructured and renewed portfolio as of December 31, 2021 and 2020 were as follows:

	Restructured and renewed in 2021		Restructured and renewed in previous years		As of December 31, 2021
	Current	Past due	Current	Past due	Total
Commercial	\$ 50,316	1,185	58,268	755	110,524
Government entities	-	-	26,642	-	26,642
Consumer loans	2,626	1,110	1,292	1,248	6,276
Mortgage loans	6,869	2,202	16,210	6,189	31,470
Total	\$ 59,811	4,497	102,412	8,192	174,912

	Restructured and renewed in 2020		Restructured and renewed in previous years		As of December 31, 2020
	Current	Past due	Current	Past due	Total
Commercial	\$ 40,579	881	48,030	607	90,097
Financial entities	-	-	13	-	13
Government entities	-	-	27,178	-	27,178
Consumer loans	1,590	1,808	58	851	4,307
Mortgage loans	9,756	3,066	8,309	4,429	25,560
Total	\$ 51,925	5,755	83,588	5,887	147,155

(Continued)



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As of December 31, 2021 and 2020, the Institution holds collateral in real estate in the amount of \$47,349 and \$9,298, respectively and it holds collateral in securities in the amount of \$219 and \$313, respectively, for restructured commercial loans.

As of December 31, 2021 and 2020, aging of non-performing portfolio is as follows:

	2021			
	Period			
	1 to 180 days	181 to 366 days	1 year to 2 years	Total
Commercial or business activity	\$ 2,466	1,547	3,257	7,270
Consumer loans	7,328	807	3	8,138
Mortgage loans	1,537	1,839	3,915	7,291
Total	\$ 11,331	4,193	7,175	22,699

	2020			
	Period			
	1 to 180 days	181 to 366 days	1 year to 2 years	Total
Commercial or business activity	\$ 5,325	2,554	4,104	11,983
Consumer loans	15,542	597	8	16,147
Mortgage loans	4,199	1,283	3,872	9,354
Total	\$ 25,066	4,434	7,984	37,484

As of December 31, 2021 and 2020, unaccrued commissions for initial loan origination by type of loan and average amortization period are comprised as shown below.

	2021			
	By amortization period			
	1 to 5 years	6 to 15 years	More than 15 years	Total
Commercial or business activity	\$ 939	210	126	1,275
Consumer loans	833	231	–	1,064
Mortgage loans	2	30	463	495
Total	\$ 1,774	471	589	2,834

	2020			
	By amortization period			
	1 to 5 years	6 to 15 years	More than 15 years	Total
Commercial or business activity	\$ 913	321	109	1,343
Consumer loans	856	275	–	1,131
Mortgage loans	2	25	419	446
Total	\$ 1,771	621	528	2,920

(Continued)



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As of December 31, 2021 and 2020, the balances of the non-performing credit loan portfolio fully reserved and eliminated from the balance sheet are as follows:

	2021	2020
Business or commercial activity	\$ 5,841	5,453
Consumer loans:		
Credit cards	1,061	2,738
Other consumer loans	2,895	2,184
	3,956	4,922
Mortgage loans	3,833	4,338
Total	\$ 13,630	14,713

For the years ended December 31, 2021 and 2020, the amounts of portfolio sold, excluding securitization transactions, are as follows:

Portfolio	2021	2020
Commercial or business activity	\$ 44	258
Consumer loans	24,339	26,415
Mortgage loans	2,006	1,820
Total	\$ 26,389	28,493

As of December 31, 2021 and 2020, the amount of lines of credit and letters of credit recorded in memorandum accounts amount to \$654,061 and \$638,851, respectively.

As of December 31, 2021 and 2020, the revenues from interest income and commissions recorded in the net interest income, segmented by type of loan, are composed as follows:

Type of loan	2021			2020
	Interest	Commission	Total	Total
Commercial loans				
Denominated in MXN:				
Commercial	\$ 30,147	927	31,074	33,952
Rediscounted portfolio	1,046	-	1,046	1,161
Leases	131	-	131	198
Denominated in foreign currency (MXN equivalent):				
Commercial	5,253	-	5,253	6,820
Rediscounted portfolio	69	-	69	108
Leases	95	-	95	98
Commercial or business activity	36,741	927	37,668	42,337
Loans to financial entities	1,469	8	1,477	2,053
Loans to government entities	9,434	52	9,486	10,147
Total commercial loans	47,644	987	48,631	54,537
Consumer loans				
Credit cards	28,193	41	28,234	27,419
Other consumer loans	37,037	729	37,766	36,523
Total consumer loans	65,230	770	66,000	63,942
Mortgage loans	25,436	74	25,510	24,535
Total, see note 28	\$ 138,310	1,831	140,141	143,014

(Continued)



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As of December 31, 2021 and 2020, loans classified by economic sectors are as follows:

	2021		2020	
	Amount	Concentration percentage	Amount	Concentration percentage
Private (companies and individuals)	\$ 522,190	39.81%	\$ 500,855	40.17%
Credit cards and consumer	311,597	23.76%	298,115	23.91%
Mortgage	280,456	21.38%	258,263	20.71%
Loans to government entities	172,608	13.16%	161,615	12.96%
Financial	22,789	1.74%	27,841	2.23%
Foreign (non-Mexican entities)	1,904	0.15%	238	0.02%
Other past-due loans	—	—	6	—
Total	<u>\$ 1,311,544</u>	<u>100%</u>	<u>\$ 1,246,933</u>	<u>100%</u>

Related-party loans – As of December 31, 2021 and 2020, loans granted to related parties in accordance with the provisions of Article 73 of the Banking Law, amounted to \$45,178 and \$41,559, respectively, that includes \$21,143 and \$17,427 in letters of credit, respectively, which are recorded in the memorandum accounts.

As described in the loan portfolio accounting policies, as a result of the health contingency caused by COVID-19 and the negative impact on the economy, on March 26, 2020 the Commission temporarily issued special accounting criteria for credit institutions regarding the consumer, residential mortgage and commercial loan portfolios, for clients who have been affected and who were classified as current as of February 28, 2020 (except for those granted to related parties as provided in Articles 73, 73 Bis and 73 Bis 1 of the Banking Law). With respect to these special accounting criteria, the Bank applied the special accounting criteria mentioned in the accounting policies in 2020.

As a result of the adherence of the borrowers to the support programs, the balance of the supported loan portfolio as of December 31, 2020 was \$278,483 and corresponds to 1,562,010 contracts, mainly in the credit card, consumer and mortgage portfolios. As of December 31, 2021, there are no impacts since these special accounting criteria were only in force during 2020.

The support programs were granted beginning April 2020, with the most of the adhered loan portfolio being in performing accounting status on the date of adhesion to the program, however, due to defaults in the supported loan portfolio occurring after the expiration of the program, a total amount of non-performing portfolio of \$18,438 was recognized as of December 31, 2020, representing 6.62% of the total supported loan portfolio. As of December 31, 2021, there are no impacts since these special accounting criteria were only in force during 2020.

Accrued interest that would have been recognized in the financial margin for the year ended December 31, 2020, would have been \$7,332 if the support plans had not been applied. For the year ended December 31, 2021, there are no impacts since these special accounting criteria were only in force during 2020.

Loan support program

Position in special Cetes and special “C” Cetes which the Institution keeps under the financial statement caption of “Securities held to maturity”.

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As of December 31, 2021, the remnant balance of the special Cetes and special "C" Cetes is comprised of as follows:

Originating trust	Special CETES			Special "C" CETES		
	No. of securities	Amount	Maturity date	No. of securities	Amount	Maturity date
422-9	128,738,261	\$ 17,318	07/07/2022	-	\$ -	-
423-9	10,656,993	1,434	01/07/2027	468,306	19	01/07/2027
431-2	964,363	119	04/08/2022	1,800	-	04/08/2022
Total (note 6c)...		<u>\$ 18,871</u>			<u>\$ 19</u>	

Loan granting policies and procedures – The Institution’s credit manual regulates the granting, control and recovery of loans. This manual was authorized by the Board of Directors and outlines the parameters to be followed by officers involved in the credit process, which are based on the Banking Law, loan origination rules issued by the Commission and sound banking practices.

Credit authorization under the Board of Directors’ responsibility is centralized in empowered committees and officers.

In the credit management function, the general process from origination to recovery is defined, specifying, by business unit, the policies, procedures and responsibilities of the officers involved, as well as the tools to be used in each step of the process.

The credit process is based on a thorough analysis of loan applications, in order to determine the comprehensive risk of each debtor. For most loans, debtors must at least have an alternate repayment source.

The main policies and procedures to determine credit risk concentrations that form part of the credit manuals are presented below.

Common risk

- Establish the criteria for determining the individuals or corporations that represent common risk for the Institution.
- Establish the criteria for determining whether individuals and/or corporations act in unison and are integrated into the same business group or consortium, in order to identify potential accumulated risk and the maximum limit of financing to be granted.

Maximum financing limit

- Make known the maximum legal credit rules issued by the authorities.
- Communicate the updated maximum credit limit for the Institution, as well as the handling of exceptions.

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Risk diversification

As of December 31, 2021 and 2020, the Institution maintains the following credit risk operations in compliance with the general risk diversification rules established in the accounting Criteria and applicable to asset and liability transactions, as follows:

- As of December 31, 2021 and 2020, the Institution keeps loans granted to a debtor or groups of persons representing a common risk for an individual amount of \$23,056 and \$22,692, respectively, which represents 9.00% and 9.64%, respectively, of the Institution's basic capital of the previous quarter.
- As of December 31, 2021 and 2020, the maximum amount of financing with the three largest debtors amounts to \$44,732 and \$48,937, respectively and represent 17.47% and 20.79%, respectively of the basic capital of the previous quarter.

Potential risk

- Loan applications must be approved in terms of the amount of the risk.
- Avoid risk exposure above the legal limit and other institutional limits established.

Consumer loans, mortgage loans and loans to small and micro-sized companies are subject to automated evaluation and follow-up mechanisms that have been implemented, based on certain standard factors which, under the Institution criteria, are used to make decisions and allow greater efficiency in the handling of the high volume of loan applications.

(10) Restructured loans denominated in UDIs

As of December 31, 2021 and 2020, restructured loans denominated in UDIs amounted to \$1,484 and \$1,638, respectively.

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(11) Allowance for loan losses

Loan ratings of the Institution, which includes the amounts for irrevocable loans and letters of credit recorded in memorandum accounts, made for the purpose of recording the loan loss allowance based on the requirements discussed in Note 3, is composed as shown below.

Risk category	2021				
	Total loans	Allowances			Total allowances
		Commercial	Consumer	Mortgage	
A1	\$ 1,017,460	1,681	1,552	260	3,493
A2	87,372	636	1,018	10	1,664
B1	95,789	313	2,521	66	2,900
B2	63,891	257	1,930	185	2,372
B3	31,999	461	1,151	40	1,652
C1	46,002	731	1,465	229	2,425
C2	22,120	240	2,834	259	3,333
D	10,152	864	1,334	945	3,143
E	20,723	4,902	6,401	2,039	13,342
Total	\$ 1,395,508	10,085	20,206	4,033	34,324
Additional allowance	–	–	486	–	486
Total	\$ 1,395,508	10,085	20,692	4,033	34,810

Risk category	2020				
	Total loans	Allowances			Total allowances
		Commercial	Consumer	Mortgage	
A1	\$ 947,768	1,569	1,294	250	3,113
A2	103,111	738	864	14	1,616
B1	84,092	286	2,207	63	2,556
B2	54,501	120	1,980	125	2,225
B3	39,310	708	1,126	43	1,877
C1	28,010	401	1,476	218	2,095
C2	21,523	112	3,127	289	3,528
D	14,949	1,416	1,789	1,322	4,527
E	31,380	5,840	12,328	1,987	20,155
Total	1,324,644	11,190	26,191	4,311	41,692
Additional allowance	–	3,494	2,558	492	6,544
Total	\$ 1,324,644	14,684	28,749	4,803	48,236

The total loan portfolio balance used for calculating the allowance for loan losses includes amounts related to irrevocable loans made and letters of credit granted, which are recorded in memorandum accounts.

The balance of the allowance for loan losses as of December 31, 2021 and 2020 is determined based on the balance of the portfolio at such dates.

The allowance for loan losses as of December 31, 2021 and 2020 covers 100% of non-performing interest.

The amount of the allowance for loan losses as of December 31, 2021 and 2020 includes the classification of loan granted in foreign currency valued at the exchange rate in effect on said dates.

As of December 31, 2021 and 2020, the allowance for loan losses represents 153.35% and 128.68%, respectively, of the non-performing loan portfolio.

The allowance for loan losses as of December 31, 2021 amounts to \$34,810, which includes an allowance of \$34,324 calculated in accordance with the methodologies approved by the Commission and \$486 of additional reserves created

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as part of the modification during 2021 to the variables Arrears (ATRI) and Percentage of Payment (%PAGOiA) and “amount due”. As of December 31, 2020, the allowance for loan losses amounts to \$48,236, which includes \$41,692 of reserves calculated according to the methodologies approved by the Commission and \$6,544 of additional reserves.

As of December 31, 2020, additional allowances were reported to the Commission on April 14, 2020 in writing, where the Bank mentions that such additional allowances were established to cover risks that are not provided for in the different credit portfolio rating methodologies. These additional reserves were already released as of December 31, 2021 for a total of \$6,544, since their effects were recognized by the methodologies used by the Institution.

The origin of the allowances, as of December 31, 2020, was due to an economic environment of global uncertainty derived from the COVID-19 pandemic with effects on the Mexican economy and consequently on the loan portfolio of companies and individuals, mainly. The methodology used to determine the additional reserves is based on the difference between the estimate of credit risk allowances, obtained at a consolidated level in accordance with International Financial Reporting Standard 9 (IFRS 9) and the reserves calculated under the methodology authorized by the Commission, taking into account a prospective scenario of the future potential situation at the date of creation, of a deep drop in the Gross Domestic Product (GDP) in 2020.

As of December 31, 2021 and 2020, allowance for loan losses by type of portfolio is as follows:

	<u>2021</u>	<u>2020</u>
Commercial loans:		
Commercial or business activity	\$ 8,749	13,490
Financial entities	471	463
Government entities	865	731
	<u>10,085</u>	<u>14,684</u>
Consumer loans	20,692	28,749
Mortgage loans	4,033	4,803
Total loan allowance	<u>\$ 34,810</u>	<u>48,236</u>

Changes in the allowance for loan losses – The analysis below shows the allowance for loan losses for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Balance at the beginning of the year	\$ 48,236	35,411
Allowance for loan losses charged to the year earnings ⁽¹⁾	28,314	48,425
Applications, write-offs and others	(41,785)	(35,594)
Exchange rate fluctuations	45	(15)
Other expenses ⁽²⁾	–	9
Balance at the end of the year	<u>\$ 34,810</u>	<u>48,236</u>

⁽¹⁾ Recoveries of loan portfolio previously written off for the years ended December 31, 2021 and 2020 were \$1,932 and \$1,335, respectively, and are presented under allowance for loan losses in the consolidated income statement, therefore, the net allowance for loan losses variation in the year earnings for the years ended December 31, 2021 and 2020 is \$26,382 and \$47,090, respectively.

⁽²⁾ Allowances for loan losses of securitized portfolio in trust 847, extinguished in 2020, which were recognized by the Institution at the time of repurchasing the portfolio.

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(12) Securitization transactions

Mortgage portfolio securitizations

The Institution has issued securitized debt certificates (*certificados bursátiles*), which have generally been formalized through contracts mentioned below:

Irrevocable Trusts created between BBVA Bancomer - Invex, Grupo Financiero for the Issuance of Fiduciary Securitization Debt Certificates (Trust numbers 847 and 881).

– **Transfer contract**

This contract is entered into by and between BBVA Bancomer, S. A., (Transferor), Banco Invex, S. A. (Transferee) and Monex Casa de Bolsa, S. A. de C. V. (Common Representative) for the purpose of assigning, on the part of the Transferor, mortgage performing loan portfolio, to the Irrevocable Fiduciary Certificate Issuance Trust (the Stock Market Certificates), free of all encumbrance and without reservation or limitation of title, together with all related benefits, proceeds and accessories applicable. The Transferor is liable only for the declarations included in such contract, for which reason noncompliance with any of the declarations will only mean that the “Transferor” replacing one or more of the ineligible loans or reimbursing in cash the proportional part of the consideration; consequently, the Transferor does not assume any obligation regarding the mortgage loans. Furthermore, the consideration was fixed as the right to receive the total amount obtained in the placement of the Stock Market Certificates (SMCs), less the respective issuance costs.

– **Irrevocable Trust Contract for the Issuance of securitized debt instruments**

This contract is entered into by and between BBVA Bancomer, S.A., (Trustor and First Beneficiary), Banco Invex, S.A. (Trustee), and Monex Casa de Bolsa, S.A. de C.V. (Common Representative), which stipulates that the objective of the Trust is the acquisition of mortgage loans, free of all encumbrance and without any reservation or limitation of title, in terms of the Assignment Contract, the issuance of Securitized debt Certificates, which will have such mortgage loans as a source of payment and the placement of the Securitized debt Certificates among small investors; while the Trustee will have all those rights and obligations considered necessary to achieve such purpose. The same agreement provided that the initial value of collateral with respect to the loan backing the certificate, which amount is recorded for accounting purposes under “Benefits receivable on securitization transactions” for BBVA Bancomer.

– **Loan Servicing Contract**

This contract is entered into by and between BBVA Bancomer, S. A., (Administrator), Trustee and Common Representative. Under this contract, the Trustee contracted the Administrator to carry out the management and collection solely and exclusively in relation to the mortgage loan and any “foreclosed assets” that were transferred in the assignment contract.

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Accordingly, to enable the Administrator to fulfill its obligations, the Trustee will pay a management fee to the Administrator equivalent to the amount resulting from multiplying the unpaid balance of the principal of the mortgage loans by the percentage stipulated and divided by 12.

During 2020, Irrevocable Trust 847 and, during 2019, Irrevocable Trusts 711 and 752 with Banco Invex, S.A., were extinguished early, so the loan portfolio of such Trusts was incorporated into the Institution's loan portfolio.

Irrevocable Trust Number 989 created between BBVA Bancomer and CI Banco (extinguished in 2020)

On June 17, 2013, the Commission through document 153/6937/2013 authorized the registration of BBVA Bancomer with the National Securities Registry of the Program for the issuance of Securitization Certificates for up to the amount up to of \$20,000 or the equivalent in UDIs for a five-year period as of the authorization date.

On June 21, 2013, the sixth issuance of mortgage portfolio securitization certificates was made for the amount of \$4,413, based on the program for the issuance of securitization debt certificates authorized by the Commission.

– **Assignment Contract**

On that same date, BBVA Bancomer, in its capacity as trustor and final trust beneficiary and CI Banco, S. A., Institución de Banca Múltiple (Trustee), in its capacity as trustee and through their Common Representative, executed irrevocable Trust No. F/00989 for the issuance of fiduciary securitization certificates to enable the Trustee to issue securitized certificates to be offered to investors through the Mexican Stock Exchange, Bolsa Mexicana de Valores, S.A.B. de C.V. ("BMV"), and which will be underwritten by mortgage loans.

– **Irrevocable Trust Agreement for the Issuance of Securitized Debt Certificates**

This contract was executed by BBVA Bancomer; (Trustor and final Trust Beneficiary) (Trustee), and Monex Casa de Bolsa, S.A. de C.V. (Common Representative), which stipulates that the purpose of the trust is to acquire mortgage loans, free from liens or encumbrances and without any ownership reserves or limitations pursuant to the terms of the Assignment Contract, to issue securitization certificates. These securitization certificates will have the aforementioned mortgage loans as their source of payment and to allow them to be offered to investors. Meanwhile, the trustee will have all the powers and obligations needed to attain this objective.

– **Loan Servicing Contract**

This contract was executed between BBVA Bancomer (Administrator), Trustee and Joint Representative. Under the terms of the contract, the Trustee contracted the Administrator to perform administration and collection activities exclusively related to the mortgage loans and any foreclosed real property transferred through the Assignment Contract. Accordingly and to enable the Administrator to fulfill its obligations, the Trustee will pay an administration fee to the Administrator.

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During 2020, Irrevocable Trust 989 with CI Banco, S.A., Institución de Banca Múltiple, was early terminated.

The specific characteristics of each trust are detailed below:

	Trusts		
	847 ^(*)	881	989 ^(**)
Execution date of trust agreement	08-Dec-08	03-Aug-09	21-Jun-13
Number of assigned loans	18,766	15,101	10,830
Amount of assigned portfolio	5,823	6,545	4,413
Securitized debt certificates issued	55,090,141	59,101,116	41,920,673
Par value per securitized debt certificate	MXN 100	MXN 100	MXN 100
Amount of issuance of securitized debt certificates	5,509	5,910	4,192
Series A1	-	562	-
Series A2	-	1,732	-
Series A3	-	3,616	-
Annual gross interest rate	9.91%	-	6.38%
Series A1	-	6.14%	-
Series A2	-	8.04%	-
Series A3	-	10.48%	-
Term of securitized debt certificates (years)	22	20.08	20
Value of global certificates (<i>constancia</i>)	314	635	221
Loan to value %	5.4%	9.7%	5.0%
Total cash flow received after assignment	5,475	5,733	4,129

(*) Trust 847 was terminated during the month of June 2020. The assets incorporated to the Institution amounted \$619 with a net effect on loss results of \$8.

(**) Trust 989 was terminated during 2020. The loan portfolio relating to this Trust was already included in the consolidated financial statements of the Institution, so there was no accounting effect derived from said termination.

(13) Other accounts receivable, net

Other accounts receivable as of December 31, 2021 and 2020 are as follows:

	2021	2020
Debtors from pending transactions settlement ^(a)	\$ 38,365	73,617
Loans to officers and employees ^(b)	15,474	14,751
Sundry debtors	4,175	5,694
Collateral granted through OTC derivatives ^(c)	2,762	10,483
Other	4,574	2,439
	65,350	106,984
Allowance for uncollectible accounts	(403)	(457)
	\$ 64,947	106,527

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^(a) As of December 31, 2021 and 2020, account receivables from pending transactions settlement, are as follows:

	<u>2021</u>	<u>2020</u>
Currencies ^(a1)	\$ 25,834	52,055
Investments securities	9,902	19,832
Derivatives	2,629	1,730
	<u>\$ 38,365</u>	<u>73,617</u>

^(a1) As of December 31, 2021 and 2020, the balance of foreign currencies is presented net of \$30,184 and \$62,794, respectively, from currency purchases, whose balances are settled net.

^(b) As of December 31, 2021, it corresponds to Institution's current officials and employees. As of December 31, 2020, it corresponds to officials and employees who belonged to BBVA Operadora México and BBVA Servicios Administrativos México who provided administration services to the Institution in that year (see note 1).

^(c) Receivables from collateral granted on OTC derivatives as of December 31, 2021 and 2020 is comprised of as indicated below.

	<u>2021</u>	<u>2020</u>
	<u>Acquisition cost</u>	<u>Carrying amount</u>
	<u>Accrued interest</u>	<u>Carrying amount</u>
Collateral granted by derivatives:		
Actinver Casa Bolsa, S. A. de C. V.	\$ 14	14
Banca Mifel, S. A. IBM	41	41
Banco Actinver S. A. IBM	12	12
Banco Base, S. A. IBM	6	6
Banco Bilbao Vizcaya Argentaria	-	-
Banco Intercam, S. A. IBM	6	6
Banco Invex, S. A. IBM	4	4
Banco JP Morgan, S. A. IBM	480	481
Banco Mercantil del Norte, S. A. IBM	-	-
Banco Nacional de Comercio Exterior, S. N. C.	-	-
Banco Nacional de México, S. A.	709	712
Banco Santander, S. A. IBM	-	-
Banco Scotiabank Inverlat, S. A. IBM	6	6
Banco Ve por más, S. A. IBM	52	52
Bank of America México, S. A. IBM	15	15
Barclays Bank PLC	185	185
BNP Paribas NY Branch	-	-
Casa de Bolsa Finamex, S. A. B. de C. V.	40	40
HSBC México S. A. IBM	538	538
Morgan Stanley	23	23
Societe Generale	627	627
Standard Chartered Bank	-	-
UBS AG	-	-
	<u>\$ 2,758</u>	<u>2,762</u>
	====	=====
	4	10,483
	=	=====

(Continued)



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(14) Foreclosed assets, net

Foreclosed assets account balance as of December 31, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Buildings	\$ 2,370	2,816
Land	1,272	1,394
Securities and rights	12	195
	<u>3,654</u>	<u>4,405</u>
Allowance for impairment of foreclosed assets	(2,665)	(3,088)
Total	<u>\$ 989</u>	<u>1,317</u>

Changes in the reserve for decreases in value of foreclosed assets are summarized below, for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Initial balance	\$ 3,088	3,289
Reserves created against "Other operating expenses"	124	277
Reserve applications for foreclosure sales and others	(547)	(478)
Ending balance	<u>\$ 2,665</u>	<u>3,088</u>

Fully reserved foreclosed assets as of December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Buildings – Foreclosed value	\$ 1,307	1,502
Land – Foreclosed value	1,149	1,270
Securities and rights – Foreclosed value	12	195
Total	<u>\$ 2,468</u>	<u>2,967</u>

(15) Property, plant and equipment, net

Property, plant and equipment as of December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Furniture and equipment	\$ 19,975	18,076
Office buildings	19,435	19,457
Installation costs	20,354	18,653
Land	5,559	5,572
	<u>65,323</u>	<u>61,758</u>
Less- Accumulated depreciation and amortization	(29,367)	(25,465)
Total	<u>\$ 35,956</u>	<u>\$ 36,293</u>

For the year ended December 31, 2021, the amount of depreciation and amortization which are recognized in the results of the year were \$2,355 and \$1,855, respectively (for 2020 \$2,345 and \$1,817, respectively).

(Continued)



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(16) Equity investments

As of December 31, 2021 and 2020, investments in associates were valued based on equity method, while other permanent investments were recorded at acquisition cost. The most significant of these investments are detailed below:

Entity	Interest		2021	2020
	2021	2020		
Fideicomiso No. 1729 INVEX - Disposal of Portfolio ⁽¹⁾	32.25%	32.25%	\$ 401	537
Servicios Electrónicos Globales, S. A. de C. V.	46.14%	46.14%	351	264
Compañía Mexicana de Procesamiento, S. A. de C. V.	50.00%	50.00%	196	194
Fideicomiso FIMPE	28.50%	28.50%	19	36
Other investments recognized at cost	Various	Various	119	104
Total			<u>\$ 1,086</u>	<u>\$ 1,135</u>

Investment in shares of associated companies was determined in some cases, based on the non-audited financial information, which is adjusted should there were differences, once it is available.

For years ended December 31, 2021 and 2020, dividends received from associated companies and other permanent investments amounted to \$103 and \$106, respectively. Recognized in the consolidated income statement under "Other operating income".

For years ended on December 31, 2021 and 2020, interest in results of associated companies amounted to \$88 and \$39, respectively.

⁽¹⁾ In October 2013, Trust named Fideicomiso 1729 Invex Enajenación de Cartera (Trust 1729) was created by the banks that had a distressed factoring portfolio with "Corporación GEO". Banco Invex, S.A., acted as trustee. The settlors contributed the collection rights and cash for expenses. On the other hand, "Corporación GEO" exchanged the collection rights transferred to the trust for real estate located in different parts of Mexico.

The value of the Institution's contribution and the changes of its reserve in Trust 1729 as of December 31, 2021 and 2020 is shown below:

Item	2021	2020
Total contributions	\$ 995	1,505
Associated reserve	(485)	(485)
Net value	510	1,020
Allowance for impairment of foreclosed assets	(109)	(483)
Net value	<u>\$ 401</u>	<u>537</u>

As a result of successful recoveries by the Trust, the Institution recorded, during the year ended December 31, 2021, a transfer of rights over the interest of Trust 1729 that amounted to \$510, with its respective effects in the reserve for write-downs in \$374 (in July 2020 the Bank increased its investment of \$262 with a release of reserve of \$23).

(Continued)



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(17) Other assets

The balance of deferred charges, advance payments and intangible assets as of December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Software ⁽¹⁾ net	\$ 4,127	4,259
Prepaid expenses	2,446	1,842
Income tax installments	-	7,976
Other expenses pending amortization	370	452
Total	<u>\$ 6,943</u>	<u>14,529</u>

⁽¹⁾ The amortization of software is determined using the straight-line method, as of the month following that of its purchase, by applying the 20% rate.

As of December 31, 2021 and 2020, the amount of the historical cost and software amortization are detailed below:

	<u>2021</u>	<u>2020</u>
Software investment	\$ 21,554	20,014
Cumulative amortization	(17,427)	(15,755)
Total	<u>\$ 4,127</u>	<u>4,259</u>

For the year ended December 31, 2021 and 2020, the amount of amortization recognized in the year's earnings was \$1,702 and \$1,669, respectively.

(18) Deposits funding

As of December 31, 2021 and 2020, deposits funding taking is as follows:

	<u>2021</u>	<u>2020</u>
On demand deposits:		
On demand deposits	\$ 1,242,299	1,084,227
Time deposits:		
PRLV	212,726	214,291
Time deposits	12,379	29,545
Debt securities issued ^(a)	87,984	84,052
Inactive deposits global account	5,403	4,956
Total	<u>\$ 1,560,791</u>	<u>1,417,071</u>

^(a) Negotiable instruments issued are detailed below.

As of December 31, 2021, the average rates in pesos of on demand deposits (unaudited) based on their short- and long-term enforceability are 0.71% and 3.51%, respectively, (as of December 31, 2020, short- and long-term are 0.77% and 3.54%, respectively, unaudited).

(Continued)



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Description of the main programs

As of December 31, 2021 and 2020, the Institution has placed short-term and long-term debt securities as follows:

	2021			2020		
	Amount	Average term (days)	Average Rate	Amount	Average term (days)	Average Rate
Long term Bank bonds	\$ 1,382	729	5.19%	\$ 700	952	5.86%
Short term Bank bonds	13,915	129	4.05%	9,109	389	4.09%
Securitized debt certificates MXN	28,542	744	4.30%	32,063	988	5.18%
Securitized debt certificates UDIs	16,252	1,651	4.31%	15,101	2,016	4.36%
Securitized debt certificates USD	2,053	392	0.61%	1,993	757	0.70%
Senior notes	25,840	1,094	3.13%	25,086	2,740	3.13%
Total	<u>\$ 87,984</u>			<u>\$ 84,052</u>		

Liquidity ratio (unaudited) - The provisions of the “Regime of admission of liabilities and investment for transactions in foreign currency” issued by the Central Bank for financial institutions establishes a mechanism for determining the liquidity coefficient for liabilities denominated in foreign currency.

According to aforementioned regime as of December 31, 2021 and 2020, the Institution did not generate an additional liquidity requirement. As of December 31, 2021 and 2020, the investment in liquid assets amounted to USD 9,640 million and USD 6,925 million, respectively, and having then a surplus of USD 3,976 million and USD 6,919 million, respectively.

(19) Interbank loans and loans from other entities

As of December 31, 2021 and 2020, interbank loans and loans from other entities are as follows:

	MXN		Rate in Average %		Average Term (days)	
	2021	2020	2021	2020	2021	2020
Loans from other entities:						
Short-term:						
Central Bank	\$ 100	–	5.97	–	182	–
Trusts established in connection with Agriculture (FIRA)	4,466	5,776	5.83	5.39	224	179
	<u>\$ 4,566</u>	<u>5,776</u>				

(Continued)



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	<u>MXN</u>		<u>Rate in Average %</u>		<u>Average Term (years)</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	Long-term:					
FIRA	\$ 8,966	8,433	6.15	5.59	6	3
Central Bank	22,090	–	4.93	–	3	–
México Low-Income Mortgage Program (FOVI)	35	44	11.42	8.74	25	25
	<u>\$ 31,091</u>	<u>8,477</u>				

	<u>US Dollars MXN Equivalent</u>		<u>Rate in Average %</u>		<u>Average Term (days)</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	Loans from other entities:					
Short-Term:						
FIRA	\$ 982	1,203	0.46	1.25	199	167
Instituto de Crédito Oficial (ICO)	230	6	0.52	0.96	119	182
	<u>\$ 1,212</u>	<u>1,209</u>				

					<u>Average Term (years)</u>		
					<u>2021</u>	<u>2020</u>	
					Long-Term:		
ICO	\$	1,682	1,730	0.57	0.96	2	2
FIRA		882	669	1.17	1.33	6	3
	<u>\$</u>	<u>2,564</u>	<u>2,399</u>				

	<u>Total Amounts</u>	
	<u>2021</u>	<u>2020</u>
	Short-Term	\$ 5,778
Long-Term	33,655	10,876
	<u>\$ 39,433</u>	<u>17,861</u>

The Institution has a liquidity facility with the Central Bank in an amount equivalent to up to the DRM (see note 4). Such liquidity facility amounted to \$33,903 as of December 31, 2021 and 2020, without considering interest in both years. As of December 31, 2021 and 2020, no borrowings were taken under said facility.

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In 2021, the Institution received four loans from the Central Bank corresponding to facility 8 “financing to banking institutions secured with corporate loans” amounted to \$21,588, secured with a restricted loan portfolio of \$23,620 (see note 9). The amount of accrued interest as of December 31, 2021 is \$502.

(20) Labor obligations

The Institution has liabilities for labor obligations arising from employee benefits, resulting from post-employment benefits, which consider the payment of premiums for years of service upon retirement, post-retirement obligations for payment of integrated medical services to retirees and their economic dependents, life insurance and sports club benefits. The amount of such labor liabilities is determined based on calculations performed by independent actuaries using the projected unit credit method and in conformity with the methodology established in Mexican FRS D-3. Plan assets are managed through an irrevocable trust.

Up until June 30, 2021, the Institution only had a labor obligation corresponding to retirees and one active employee, according to the July 1, 2021 labor reform, as mentioned in note 1, employees of the Group’s personnel operating companies that provided services were transferred to the Institution, including the amounts funded by them in each plan.

Below is the breakdown of the net liabilities for defined benefits as of December 31, 2021 and 2020, and it is included under “Sundry creditors and other accounts payable”.

(Continued)



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		2021						
		Other retirement benefits						
		Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Porvenir bonus	Legal compensation	Total
As of December 31, 2021, the net (liabilities) from defined benefits are as follows:								
Defined benefit obligations	\$	(15,297)	(31,116)	(1,802)	(112)	(235)	(1,925)	(50,487)
Plan assets		12,751	33,929	1,609	--	349	--	48,638
Net (liability) from defined benefits	\$	(2,546)	2,813	(193)	(112)	114	(1,925)	(1,849)
Initial balance	\$	5,461	8,811	1,121	20	--	9	15,422
Service cost		41	252	--	1	8	65	367
Financial cost		740	1,845	103	6	17	47	2,758
Actuarial (gains) and losses of the period		2,331	(4,070)	166	(23)	(168)	809	(955)
Paid benefits		(968)	(823)	(17)	(4)	(2)	(137)	(1,951)
Transfer of obligation		7,692	25,101	429	112	380	1,132	34,846
Defined benefit obligations at end of year	\$	15,297	31,116	1,802	112	235	1,925	50,487

		2021						
		Other retirement benefits						
		Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Porvenir bonus	Legal compensation	Total
As of December 31, 2021, plan assets ("PA") are as follows:								
PA at the beginning of the year	\$	5,373	8,652	1,147	--	--	--	15,172
Plan transfers		603	(561)	--	--	(42)	--	--
PA expected return		735	1,881	104	--	18	--	2,738
Actuarial gains accrued in the period		(287)	(330)	(53)	--	(1)	--	(671)
Paid benefits		(967)	(823)	(17)	--	(2)	--	(1,809)
Transfer of plan assets		7,294	25,110	428	--	376	--	33,208
PA at the end of the year	\$	12,751	33,929	1,609	--	349	--	48,638

(Continued)



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		2021						
		Other retirement benefits						
		Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Porvenir bonus	Legal compensation	Total
Net assets (liabilities) from defined benefits at the beginning of the year	\$	(88)	(159)	26	(20)	–	(9)	(250)
Plan transfers		603	(561)	–	–	(42)	–	–
Service cost		(41)	(252)	–	(1)	(8)	(65)	(367)
Net interest		(5)	36	1	(6)	1	(47)	(20)
Estimated payments		1	–	–	4	–	137	142
Transfer of obligation		(398)	9	(1)	(112)	(4)	(1,132)	(1,638)
Actuarial (losses) gains recognized in OCI during the period		<u>(2,618)</u>	<u>3,740</u>	<u>(219)</u>	<u>23</u>	<u>167</u>	<u>(809)</u>	284
Net assets (liabilities) for defined benefits at end of year	\$	<u>(2,546)</u>	<u>2,813</u>	<u>(193)</u>	<u>(112)</u>	<u>114</u>	<u>(1,925)</u>	<u>(1,849)</u>
As of December 31, 2021, the income (cost) defined benefit is as follows:								
Service cost:								
Current service	\$	(41)	(252)	–	(1)	(8)	(65)	(367)
Net interest on net assets (liabilities) for defined benefits:								
Interest cost of defined benefit obligations		(740)	(1,845)	(103)	(6)	(17)	(47)	(2,758)
PA interest income		735	1,881	104	–	18	–	2,738
Reclassification of remeasurement of net assets (liabilities) by defined benefit to be recognized in OCI:								
Gains on defined benefit obligation		(225)	(251)	14	–	1	3	(458)
PA profits		17	47	1	–	–	(1)	64
Income (cost) of defined benefits	\$	<u>(254)</u>	<u>(420)</u>	<u>16</u>	<u>(7)</u>	<u>(6)</u>	<u>(110)</u>	<u>(781)</u>

(Continued)



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		2021						
		Other retirement benefits						
		Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Porvenir bonus	Legal compensation	Total
As of December 31, 2021, remeasurements of net (liabilities) assets for defined benefits recognized in OCI are as follows:								
Reconciliation of actuarial (loss) gains:								
Initial balance - (loss) gain on the obligation	\$	(2,824)	(2,851)	(15)	(2)	-	-	(5,692)
(Loss) gain on the obligation		(2,331)	4,070	(166)	23	168	(809)	955
Reclassification of remeasurement on the obligation		225	251	(14)	-	(1)	(3)	458
Ending balance - (loss) gain on the obligation		(4,930)	1,470	(195)	21	167	(812)	(4,279)
Initial balance - (loss) gain on return of assets		364	577	49	-	-	-	990
Gain (loss) on return of PA		(287)	(330)	(53)	-	(1)	-	(671)
Reclassification of remeasurement in PA return		(17)	(47)	(1)	-	-	1	(64)
Ending balance - (loss) gain on the obligation		<u>60</u>	<u>200</u>	<u>(5)</u>	<u>=</u>	<u>(1)</u>	<u>1</u>	<u>255</u>
Ending balance - net (loss) gain recognized in OCI	\$	(4,870)	1,670	(200)	21	166	(811)	(4,024)

(Continued)



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	2020					
	Other retirement benefits					
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation	Total
As of December 31, 2020, net (liabilities) from defined benefits are as follows:						
Defined benefit obligations	\$ (5,461)	(8,811)	(1,121)	(20)	(9)	(15,422)
Plan assets	5,373	8,652	1,147	-	-	15,172
Net (liability) from defined benefits	<u>\$ (88)</u>	<u>(159)</u>	<u>26</u>	<u>(20)</u>	<u>(9)</u>	<u>(250)</u>
Initial balance	\$ 4,503	7,430	896	15	7	12,851
Service cost	-	-	-	-	1	1
Financial cost	383	647	78	2	1	1,111
Actuarial (gains) & losses of the period	1,137	1,199	158	3	-	2,497
Paid benefits	(562)	(465)	(11)	-	-	(1,038)
Defined benefit obligations at end of year	<u>\$ 5,461</u>	<u>8,811</u>	<u>1,121</u>	<u>20</u>	<u>9</u>	<u>15,422</u>

	2020					
	Other retirement benefits					
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation	Total
As of December 31, 2020, plan assets ("PA") are as follows:						
PA at the beginning of the year	\$ 3,715	7,672	1,031	-	-	12,418
Contributions made by the entity	1,646	493	82	-	-	2,221
Plan transfers	-	92	(92)	-	-	-
PA expected return	293	635	87	-	-	1,015
Actuarial gains accrued in the period	281	225	50	-	-	556
Paid benefits	(562)	(465)	(11)	-	-	(1,038)
PA at the end of the year	<u>\$ 5,373</u>	<u>8,652</u>	<u>1,147</u>	<u>-</u>	<u>-</u>	<u>15,172</u>

(Continued)



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	2020					
	Other retirement benefits					
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation	Total
Net assets (liabilities) from defined benefits at the beginning of the year	\$ (788)	242	135	(15)	(7)	(433)
Plan contributions	1,646	493	82	–	–	2,221
Plan transfers	–	92	(92)	–	–	–
Service cost	–	–	–	–	(1)	(1)
Net interest	(90)	(12)	9	(2)	(1)	(96)
Actuarial (losses) gains recognized in OCI during the period	(856)	(974)	(108)	(3)	–	(1,941)
Net assets (liabilities) for defined benefits at the end of the year	<u>\$ (88)</u>	<u>(159)</u>	<u>26</u>	<u>(20)</u>	<u>(9)</u>	<u>(250)</u>
As of December 31, 2020, the income (cost) defined benefit is comprised as follows:						
Service cost:						
Current service	\$ –	–	–	–	(1)	(1)
Net interest on net assets (liabilities) for defined benefits:						
Interest cost of defined benefit obligations	(383)	(647)	(78)	(2)	(1)	(1,111)
PA interest income	293	635	87	–	–	1,015
Reclassification of remeasurement of net assets (liabilities) by defined benefit to be recognized in OCI:						
Gains on defined benefit obligation	(161)	(223)	12	(1)	–	(373)
PA profits	7	39	(3)	–	–	43
Income (cost) of defined benefits	<u>\$ (244)</u>	<u>(196)</u>	<u>18</u>	<u>(3)</u>	<u>(2)</u>	<u>(427)</u>

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	2020					Total
	Other retirement benefits					
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation	
As of December 31, 2020, remeasurements of net (liabilities) assets for defined benefits recognized in OCI are as follows:						
Reconciliation of actuarial (loss) gains:						
Initial balance - (loss) gain on the obligation	\$ (1,848)	(1,875)	155	-	-	(3,568)
(Loss) gain on the obligation	(1,137)	(1,199)	(158)	(3)	-	(2,497)
Reclassification of remeasurement on the obligation	161	223	(12)	1	-	373
End balance - (loss) gain on the obligation	(2,824)	(2,851)	(15)	(2)	-	(5,692)
Initial balance - (loss) gain on return of assets	90	391	(4)	-	-	477
Gain (loss) in return of PA	281	225	50	-	-	556
Reclassification of remeasurement in PA return	(7)	(39)	3	-	-	(43)
End balance - (loss) gain on the obligation	364	577	49	-	-	990
End balance - net (loss) gain recognized in OCI	\$ (2,460)	(2,274)	34	(2)	-	(4,702)

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The club sports plan for retirees was established since 2010, which was originated by the right of employees to continue receiving sports services once they retire, in this scheme the Institution covers a part of the fees and the retired the other.

As of December 31, 2021 and 2020, the legal compensation plan and the sports club plan for retirees have no assets for financing the obligations for defined benefits.

As of December 31, 2021 and 2020, plan assets were invested in government securities. Likewise, expected income of the plan assets to those dates was estimated in the amount of \$2,738 and \$1,015 of surplus, respectively, real profit to the same dates in the amount of \$2,067 and \$1,571 of surplus.

The main actuarial assumptions used in 2021 and 2020 are shown below:

	<u>2021</u>	<u>2020</u>
Nominal discount rate used to estimate the obligations' present value	9.68%	7.43%
Expected return rate for plan assets	9.68%	7.43%
Salary increase rate	4.00%	4.00%
Pension increase rate	2.31%	5.95%
Medical services increase rate	7.00%	7.00%
Nominal increase rate on future salaries	3.00%	3.75%
Long term inflation rate	3.00%	3.75%

(21) Subordinated debt

Subordinated obligations as of December 31, 2021 and 2020 are comprised as follows:

	<u>2021</u>	<u>2020</u>
USD 1,250 million senior notes, issued March 2011, at interest rate of 6.50%, payable semiannually from September 10, 2011, due March 10, 2021; the number of outstanding securities is 1,250,000, with a par value of USD 1,000 each. During 2019, capital amortizations of USD 500 million were made, and so, as of December 31, 2020, the capital amounted to USD 750 million.	\$ -	14,933
USD 1,000 million senior notes, issued July 2012, at interest rate of 6.75% and a USD 500 million issuance extension in September 2012, at interest rate of 6.75%, payable semiannually from March 30, 2013, due September 30, 2022; the number of outstanding securities is 1,500,000 with a par value of USD 1,000 each.	30,761	29,863
USD 200 million senior notes, issued in November 2014, at interest rate of 5.35%, payable semiannually from May 12, 2015, due November 12, 2029; the number of outstanding securities is 200,000 with a par value of USD 1,000 each.	4,101	3,982
USD 1,000 million senior notes, issued January 2018, at interest rate of 5.125% payable semiannually from July 17, 2018, due January 18, 2033; the number of outstanding securities is 1,000,000, with a par value of USD 1,000 each.	20,507	19,909
USD 750 million senior notes, issued September 2019, at interest rate of 5.875% payable semiannually from March 13, 2020, due September 13, 2034; the number of outstanding securities is 750,000 with a par value of USD 1,000 each.	15,381	14,931
Unpaid accrued interest	<u>1,305</u>	<u>1,563</u>
Total	<u>\$ 72,055</u>	<u>85,181</u>

(Continued)



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(22) Related parties

Following provisions of Criteria C-3 “Related parties” issued by the Commission, significant related parties balances/transactions are described below:

	<u>2021</u>	<u>2020</u>
Banco Bilbao Vizcaya Argentaria, S.A.:		
Derivative financial instruments ⁽¹⁾	\$ (1,372)	(1,143)
Repurchase/resale agreements payable ⁽¹⁾	<u>(3,450)</u>	<u>(2,480)</u>
BBVA Operadora México, S. A. de C. V.:		
Administrative services fees paid (note 35(b)) ⁽²⁾	\$ 3,827	10,245
Accounts payables ⁽¹⁾	<u>–</u>	<u>1,984</u>
BBVA Servicios Administrativos México, S. A. de C. V.:		
Administrative services fees paid (note 35(b)) ⁽²⁾	\$ 7,444	15,313
Accounts payables ⁽¹⁾	<u>–</u>	<u>2,618</u>
BBVA Seguros México, S. A. de C. V. (formerly Seguros Bancomer, S. A. de C. V.):		
Fee income ⁽²⁾	\$ 2,103	1,822
Insurance premiums paid ⁽²⁾	<u>93</u>	<u>59</u>
BBVA Pensiones México, S. A. de C. V. (formerly Pensiones BBVA Bancomer, S. A. de C. V.):		
Investments in securities ⁽¹⁾	\$ <u>2,389</u>	<u>1,885</u>
BBVA Asset Management México, S. A. de C. V. (formerly BBVA Bancomer Gestión, S. A. de C. V.):		
Fee income ⁽²⁾	\$ <u>4,242</u>	<u>4,228</u>
Aplica Tecnología Avanzada, S. A. de C. V.:		
Deposit taking ⁽¹⁾	\$ 744	224
Income:		
Interest ⁽²⁾	\$ 4	8
Administrative services fees ⁽²⁾	\$ 32	38
Expenses:		
Processing and system development ⁽²⁾	\$ <u>2,941</u>	<u>2,799</u>
BBVA Leasing México, S. A. de C. V. (antes Facileasing, S. A. de C. V.):		
Deposits ⁽¹⁾	\$ 414	1,980
Loan portfolio ⁽¹⁾	\$ 3,593	4,978
Income:		
Interest ⁽²⁾	159	220
Administrative services fees ⁽²⁾	\$ <u>55</u>	<u>71</u>

⁽¹⁾ Balances of accounts payable/receivable as of December 31, 2021 and 2020, respectively.

⁽²⁾ It relates to the income or (expense) recorded in the consolidated income statement for years ended on December 31, 2021 and 2020, respectively.

As of December 31, 2021 and 2020, there are other related parties transactions that are regarded as non-significant and have not been disclosed.

(Continued)



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(23) Income tax (for its acronym in Spanish “ISR”) and employee statutory profit sharing (for its acronym in Spanish “PTU”, for the year ended December 31, 2021 due to the incorporation of employees to the Institution)

The current Income Tax Law establishes an income tax rate of 30%.

Main items affecting the Institution taxable income were the annual inflation adjustment, accruals, the market valuation results, the pre-maturity of derivative financial instruments, the differences between the accounting and tax depreciation and amortization and the deductible written-off portfolio and the application of discounts.

A reconciliation for the years ended December 31, 2021 and 2020 of the income tax rate and the effective tax rate, as a percentage of the income before income tax, is as follows:

	2021		2020	
	Tax	Rate	Tax	Rate
Statutory rate	\$ 24,627	30.00%	\$ 15,120	30.00%
Increase (reduction from):				
Non-deductible expenses	586	0.71%	448	0.89%
Effects of annual inflation	(6,359)	(7.75%)	(2,339)	(4.64%)
Net tax payments agreed with authorities during the fiscal year	3,179	3.87%	1,133	2.25%
Other	(128)	(0.15%)	(89)	(0.18%)
Effective rate	<u>\$ 21,905</u>	<u>26.68%</u>	<u>\$ 14,273</u>	<u>28.32%</u>

As of December 31, 2020, the Institution had recoverable Asset Tax (for its acronym in Spanish “IMPAC”) in the amount of \$198, which was recovered during 2021.

Other tax matters:

As of December 31, 2021 and 2020, balances are as follows:

	2021	2020
Net after-tax profit account	\$ 158,438	128,695
Capital contributions account	<u>81,426</u>	<u>75,895</u>

(Continued)



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The Institution has recognized a deferred income tax resulting from temporary differences arising from the comparison of accounting and taxable values of the following assets and liabilities:

	<u>2021</u>		<u>2020</u>		<u>2021</u> <u>Variation</u>
	<u>Temporary differences</u>		<u>Temporary differences</u>		
	<u>Base</u>	<u>Deferred IT</u>	<u>Base</u>	<u>Deferred IT</u>	
<u>Deferred tax assets:</u>					
Allowance for loan losses (not deducted)	\$ 46,137	13,841	59,664	17,899	(4,058)
Fees and interest charged in advance	8,290	2,487	7,954	2,386	101
Provisions	6,793	2,038	5,961	1,788	250
Other assets	6,726	2,018	3,663	1,099	919
Foreclosed assets	3,973	1,192	4,276	1,283	(91)
Valuation of available-for-sale securities (stockholders' equity)	8,426	2,528	–	–	2,528
Valuation of hedging derivatives (stockholders' equity)	1,126	338	137	41	297
Pension reserve	1,890	567	118	36	531
Total assets	83,361	25,009	81,773	24,532	477
<u>Deferred tax liabilities:</u>					
Market valuation (results)	1,290	387	1,097	329	58
Early maturity of derivative financial transactions	2,755	826	549	165	661
Valuation of available-for-sale securities (stockholders' equity)	–	–	4,028	1,208	(1,208)
Other liabilities	6,075	1,823	1,380	414	1,409
Total liabilities	10,120	3,036	7,054	2,116	920
Net deferred assets	\$ 73,241	21,973	74,719	22,416	(443)
Charge in results for the year				\$ (4,348)	
Net charge in OCIs				\$ 3,905	

To determine the accrued and deferred PTU, as a result of the labor reform referred to in note 1 to the consolidated financial statements, compliance with the provisions of the Federal Labor Law and the Income Tax Law is required. Therefore, the following should be considered in said determination.

- (a) The Institution shall apply 10% to the PTU tax profit basis, in accordance with the provisions of the Income Tax Law.
- (b) The amount determined in the preceding paragraph must be allocated to each employee in accordance with the provisions of the Federal Labor Law, however, the amount allocated to each employee may not exceed the greater of: the equivalent of three months of the employee's current salary or the average PTU received by the employee in the previous three years.
- (c) If the determined PTU in subsection (a) is greater than the sum of the PTU allocated to each of the employees according to subsection (b), the latter must be considered the PTU accrued in the period. Pursuant to the Federal Labor Law, it is considered that the difference between the two amounts does not create a payment obligation in the current or future periods.
- (d) If the PTU determined in subsection (a) is less than or equal to the amount determined in subsection (b), the PTU of subsection (a) must be the PTU accrued in the period.

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For the year ended December 31, 2021, the amount of the PTU accrued amounted \$2,524, which was recognized in the consolidated income statement under caption “Administrative and promotional expenses”.

According to technical report 53 issued by the CINIF in June 2021, it states that to determine the factor to be used in determining the deferred PTU, the accrued PTU shall be divided by PTU determined at 10% of the tax profit; the ratio obtained must be multiplied by the PTU statutory rate of 10% in order to obtain the factor to be applied in determining and calculating the deferred PTU. For the year ended December 31, 2021, the factor derived from the mechanics mentioned above amounted to 5.6%.

The Institution has recognized deferred PTU derived from the temporary differences that originate significant portions of the assets and liabilities of deferred PTU as of December 31, 2021, which are detailed below:

	<u>2021</u>	
	<u>Temporary differences</u>	
	<u>Base</u>	<u>Deferred Profit Sharing</u>
<u>Temporary Differences (assets):</u>		
Allowance for loan losses (not deducted)	\$ 46,137	2,584
Fees and interest charged in advance	8,290	464
Provisions	6,635	372
Other assets	4,174	234
Foreclosed assets	3,973	222
Valuation of available-for-sale securities (stockholders' equity)	8,426	472
Valuation of hedging derivatives (stockholders' equity)	1,126	63
Pension reserve	1,890	106
Total assets	80,651	4,517
<u>Temporary Differences (liabilities):</u>		
Market valuation (results)	1,290	72
Early maturity of derivative financial transactions	2,755	154
Other liabilities	1,891	107
Total liabilities	5,936	333
Net deferred assets	\$ 74,715	4,184
Charge in results for the year	\$	3,640
Net charge in OCIs		544

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In assessing the recoverability of deferred tax assets, Management considers whether it is more likely than not that some portion or all the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Other considerations:

In accordance with Mexican tax law, the tax authorities are empowered to examine transactions carried out during the five years prior to the most recent income tax return filed.

In accordance with the Income Tax Law, companies carrying out transactions with the related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's length transactions.

(24) Stockholders' equity

(a) Structure of the capital stock

The Institution's capital stock as of December 31, 2021 and 2020 was as follows:

	Number of shares at par value of MXN \$0.28		
	Capital Stock	Issued Shares (unsubscribed)	Paid-In
Series "F"	9,107,142,859	(1,370,063,922)	7,737,078,937
Series "B"	8,749,999,999	(1,316,335,923)	7,433,664,076
Total	<u>17,857,142,858</u>	<u>(2,686,399,845)</u>	<u>15,170,743,013</u>
	Historical Amount		
	Capital Stock	Issued Shares (unsubscribed)	Paid-In
Series "F"	\$ 2,550	(384)	2,166
Series "B"	2,450	(368)	2,082
Subtotal	<u>\$ 5,000</u>	<u>(752)</u>	4,248
Reordering of capital updates			10,971
Adjustment to MXN as of December 2007			<u>8,924</u>
Total			<u>\$ 24,143</u>

On February 26, 2021, the General Ordinary Shareholders' Meeting authorized the distribution of dividends for up to \$25,317, from the "Result from previous years" account, of which \$11,080 were paid to shareholders on June 14, 2021 at a rate of MXN \$0.730353153468186 per share, see note 24(c).

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On February 28, 2020, at the Ordinary General Shareholders' Meeting, it was resolved to authorize the distribution of dividends up to the amount of \$39,101, from the "Results from previous years" account, of which \$10,275 were paid to shareholders on March 24, 2020 at a rate of \$0.677299061172885 pesos per share.

(b) Comprehensive income

Comprehensive income for years ended on December 31, 2021 and 2020, amounted to \$51,514 and \$37,643, net of deferred taxes, respectively, such amount is shown in the consolidated statement of changes in stockholders' equity and represents the result of the total activity of the Institution and its subsidiaries during the year, and includes the items that according to the applicable Accounting Criteria, recorded directly in stockholders' equity (result from valuation of securities available for sale and result from valuation of cash flow hedging, corresponding to one of the above mentioned items and remeasurements for employees' defined benefits.)

(c) Stockholders' equity restrictions

The Banking Law requires the Institution to set aside 10% of its profits annually in order to establish capital reserves, up to the amount of paid-in capital. As of December 31, 2021 and 2020, the Institution has reached the required reserve amount with respect to the historical paid-in capital.

In the event of profits distribution not subject to taxes applicable to the Institution, such tax must be paid upon distribution of the dividend. Therefore, the Institution must consider the profits subject to each rate.

On April 16, 2021, the Commission issued official letter No. P083/2021, superseding official letter dated March 31, 2020, regarding the payment of dividends, the repurchase of shares and any other mechanism or act that involves a transfer of equity benefits to shareholders (or the assumption of the irrevocable commitment to pay them), which is mentioned below.

Due to the Covid-19 pandemic in Mexico and worldwide, on March 31, 2020, the Commission recommended banking institutions in Mexico to refrain from agreeing to pay shareholders dividends from the Multiple Banking Institution, as well as any mechanism or action that involves a transfer of economic benefits to them or assuming the irrevocable commitment to pay them with respect to the 2019 and 2020 fiscal years, including the distribution of reserves, or carry out rewards of shares or any other mechanism aimed at rewarding shareholders. If the relevant Multiple Banking Institution is member of a financial group, the measure will include the holding company of the group to which it belongs, as well as the financial entities or companies that are part of said group.

(d) Institution's capitalization index (unaudited)

Capitalization rules establish requirements in relation to specific levels of net capital, as a percentage of the assets subject to market risk, credit and operational risks; however, for purposes of the net capital calculation, deferred taxes shall represent a maximum of 10% of the basic capital.

Under the standard method, transactions are classified into 12 different groups based on the counterparty and must be weighted according to the applicable degree of risk.

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In addition, under this method, a greater weight is allocated to the past due portfolio (115% and 150%) and the mortgage loans shall have a factor of 50% to 100%, depending on the level of the down payment and the related guarantees, which serve to increase the down payment percentage and to allocate a better weight.

- *Capitalization for operational risk*

To calculate the capital requirement for exposure to operational risk, the Institution must use the Alternative Standard Method, authorized by the Commission on November 27, 2015.

The capital requirement for the alternative standard method must be implemented within a term of three years and it must consider the weight according to the business line.

The amendments to the Capitalization rules issued in December 2014, effective October 2015, are shown below:

- *Capitalization for market risk*

According to amendments to the capitalization rule in effect as of October 2015, the applicable weights for reports RC-01, RC-02, RC-03 and RC-04 were modified. In addition, in the RC on share positions (RC-05) weights for the general market risk are changing. The portfolio diversification calculation is omitted using instead 8% of the market specific risk, and finally the calculation for liquidation risk is suppressed.

A new RC was added to the market requirements, RC-18, which captures the effect of Gamma and Vega on the option positions and is reflected in the total market risk at the end of December 2018. This requirement is additional to requirements generated in the other RCs.

- *Capitalization for credit risk*

With respect to credit risk, changes to the capitalization rule caused the counterparty risk to be split in counterparty and related party credit risk and credit risk for credit valuation adjustment and with related parties and exposure to non-compliance fund in bank clearing houses. As of September 2021, changes in weights applicable to the standard method of Article 2 bis 17 are included.

The Institution's capitalization index as of December 31, 2021 amounted to 19.16% of total risk (market, credit and operational) and 30.21% of credit risk, which are 7.16% and 18.21% points above the minimum required, including in addition the conservation the equity are 2.5% and 1.5% of supplementary for the risk systematic.

The amount of net capital, made up of basic and supplementary capital, is broken down below (shown figures may differ in their presentation in the Institution's consolidated financial statements).



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Basic capital

Item	Amount
Stockholders' equity, without cumulative effect per conversion	\$ 282,616
Deduction of investments in subordinated instruments	(105)
Deductions of investments in shares of financial entities	(574)
Organization expenses and other intangibles	(5,938)
Deferred taxes for tax losses	(4,765)
Total	\$ 271,234

Supplementary capital

Item	Amount
Obligations and capitalization instruments	\$ 39,990
Allowance for loan losses	618
Total	\$ 40,608
Net capital	\$ 311,842

Item	Amount	Maturity Date	Calculation Percentage	Weighted Average (Basic Capital)
Computable capitalization instruments	\$ 4,102	11/12/2029	100%	\$ 4,102
Computable capitalization instruments	20,507	01/18/2033	100%	20,507
Computable capitalization instruments	15,381	09/13/2034	100%	15,381
Total	\$ 39,990			\$ 39,990

Assets at risk are comprised as follows:

– *Assets subject to market risk:*

Item	Risk-weighted assets	Capital requirement
Transactions in MXN, with nominal rate	\$ 385,342	30,827
Transactions in MXN, with a real rate or denominated in UDIs	10,715	857
Rate of return with respect to the general minimum wage	4,527	362
Interest rate of transactions in foreign currency with nominal rate	32,624	2,610
Positions in UDIs or with return referred to the INPC	66	5
Transactions with respect to the general minimum wage	238	19
Currency positions or with return indexed to exchange rate	8,622	690
Positions in shares or with return indexed to the price of a share or group of shares	5,521	442
Spread	8,772	702
Vega	218	17
Gamma	291	23
Total market risk	\$ 456,936	36,554

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– *Assets subject to credit risk:*

Item	Risk Weighted Assets	Capital Requirement
Weighted at 10%	\$ 662	53
Weighted at 11.5%	880	70
Weighted at 20%	15,552	1,244
Weighted at 23%	6	-
Weighted at 25%	223	18
Weighted at 28.8%	3,490	279
Weighted at 50%	6,758	541
Weighted at 60%	49	4
Weighted at 75%	90,640	7,251
Weighted at 85%	2,256	180
Weighted at 90%	1,497	120
Weighted at 100%	287,082	22,967
Weighted at 115%	6,177	494
Weighted at 150%	193	15
Weighted at 350%	281	22
Weighted at 1250%	955	76
Internal Methodology	573,413	45,873
C V A (RC06 B)	15,349	1,228
E C (RC06 C)	24	2
Derivative counterparty	13,859	1,109
Related	12,952	1,036
Repo and spot counterparty	96	8
	\$ 1,032,394	82,590
Related derivatives		
	\$ 138,055	11,044
Operational risk		

Capital management - The Institution has the required staff, processes and systems for the proper identification, measurement, oversight, control and mitigation of the risks to which the Institution is exposed; for further detail and explanation see note 32.

In turn, the periodic processes to guarantee that financial reports are disclosed and reflect the risks to which the Institution is exposed are defined and established.

Stress testing are performed annually; these are required by the Commission to assess capital sufficiency of the Institution in order to continue acting as intermediary of resources and granting loans under different scenarios.

In addition, there is an analysis comprising liquidity crisis scenarios. These stress scenarios estimate the impact on the auto-financing ratio and the capacity of explicit assets available to cover maturities in a horizon of 12 months, which allows to know the Institution survival horizon. Results show a satisfactory resistance of the Institution to liquidity crisis.

On the other hand, the Institution has different management levers to be actioned should it faced different stress scenarios that could impair its solvency position in terms of capital and/or liquidity. Given the strong condition of the Institution, both financial and of its balance structure, such levers allow it to access wholesale markets, both local and international, to obtain financing and capital, have at its disposal high quality assets for its sale and/or securitization, as well as discount securities, either at the market or with the Central Bank.

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Based on the foregoing, it is determined that the Institution has the mechanisms necessary to efficiently face stress scenarios that may impair the situation, both in relation to the capital and liquidity.

For further details, see “Exhibit 1-O”, required by the Banking Regulations “Supplementary Information for the fourth quarter of 2021”, in compliance with the obligation to disclose information on the Capitalization Index, available on the webpage <https://investors.bbva.com/>.

(25) Foreign currency position

Central Bank regulations provides for standards and limits for banks to keep long or lending (short or borrowing) positions in foreign currencies equivalent to a maximum of 15% of the Institution’s basic capital. As of December 31, 2021 and 2020, the Institution kept an exchange rate risk position within the mentioned limit.

As of December 31, 2021 and 2020, the Institution has assets and liabilities in foreign currency, mainly in US dollars, translated at the closing exchange rate of \$20.5075 pesos per US dollar and the exchange rate to settle obligations of \$19.9087 pesos per US dollar, respectively, both issued by the Central Bank, as shown below:

	Amounts in millions	
	2021	2020
Assets	18,636	16,366
Liabilities	(17,960)	(15,402)
Net assets position in foreign currency	676	964
Net assets position in MXN (par value)	\$ 13,863	19,192

As of February 25, 2022, the date of authorization of the financial statements, the closing exchange rate determined by the Central Bank was \$20.3769 pesos per US dollar.

Pursuant to the regulations of the Central Bank, the position reported to that institution as of December 31, 2021 and 2020 was USD 280 million and USD 322 million long, which includes foreign currency option positions, and excludes assets and liabilities that are not computable.

The Institution performs transactions in foreign currency, primarily in US dollars, Euros and Japanese yen. The Institution does not disclose its position in currencies other than the US dollar, as it is largely immaterial. The parity of other currencies with the Mexican peso is referenced to the US dollar and is in compliance with the Central Bank regulations, so that the foreign currency position of all currencies is consolidated in US dollars at each monthly closing.

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(26) Position in UDIs

As of December 31, 2021 and 2020, the Institution had UDI-denominated assets and liabilities translated into Mexican pesos, considering the prevailing conversion rate of \$7.108233 and \$6.605597 per UDI, respectively, as follows:

	Million UDIs	
	2021	2020
Assets	\$ 1,890	3,862
Liabilities	(3,373)	(5,074)
Net asset (liability) position in UDIs	<u>(1,483)</u>	<u>(1,212)</u>
Net asset (liability) position Mexican pesos (par value)	<u>\$ (10,541)</u>	<u>(8,006)</u>

As of February 25, 2022, the issue date of the financial statements, the last known UDI exchange rate was \$7.169241 Mexican pesos per UDI.

(27) Preventive and protective savings mechanism

The Bank Savings Protection Institute (*Instituto de Protección al Ahorro Bancario*, "IPAB") was approved on January 19, 1999. It is intended to establish a bank savings protection system for individuals who perform any of the established guaranteed transactions, while regulating the financial support granted to Full-Service Banking Institutions to protect the public interest for an equivalent of up to 400,000 UDIs.

The IPAB has resources derived from the mandatory fees paid by financial institutions, which reflect their risk exposure levels based on their level of capitalization and other indicators determined by the internal regulations of the IPAB Governance Board. These fees must be paid monthly for an amount equivalent to one twelfth of four thousandths of the monthly average of daily debit transactions of the month in question.

During 2021 and 2020, contributions made by the financial group to IPAB for insurance deposits amounted to \$6,392 and \$6,303, respectively.

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(28) Net interest income

For the years ended December 31, 2021 and 2020, the main items comprising the net interest income were as follows:

	2021		
	MXN	US Dollars MXN equivalent	Total
Interest income:			
Interest and returns on loan portfolio (note 9)	\$ 129,270	9,040	138,310
Interest and return on securities (note 6(a), 6(b) and 6(c))	30,789	180	30,969
Interest on cash and cash equivalents	2,346	253	2,599
Interest and premiums on repurchase/resale agreements and securities lending (note 7(b))	1,993	-	1,993
Interest on margin accounts	61	-	61
Interest on subordinated debt	63	-	63
Fee income on loan originations (note 9)	1,822	9	1,831
Other	372	175	547
Total interest income	166,716	9,657	176,373
Interest expense:			
Interest on deposits	(16,347)	(1,717)	(18,064)
Interest on loans by banks and other entities	(1,368)	(12)	(1,380)
Interest on subordinated debt	(2,384)	(570)	(2,954)
Interest and premiums on repurchase/resale agreements and securities lending (note 7(b) and 7(c))	(16,138)	-	(16,138)
Expenses on loan originations	(1,404)	-	(1,404)
Other	(2,061)	(65)	(2,126)
Total interest expense	(39,702)	(2,364)	(42,066)
Net interest income	\$ 127,014	7,293	134,307

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	2020		
	MXN	US Dollars MXN equivalent	Total
Interest income:			
Interest and returns on loan portfolio (note 9)	\$ 128,976	12,041	141,017
Interest and return on securities (note 6(a), 6(b) and 6(c))	30,996	84	31,080
Interest on cash and cash equivalents	2,715	230	2,945
Interest and premiums on repurchase/resale agreements and securities lending (note 7(b))	3,341	–	3,341
Interest on margin accounts	145	–	145
Interest on subordinated debt	63	–	63
Fee income on loan originations (note 9)	1,990	7	1,997
Other	318	270	588
Total interest income	168,544	12,632	181,176
Interest expense:			
Interest on deposits	(25,378)	(2,570)	(27,948)
Interest on loans by banks and other entities	(1,230)	(27)	(1,257)
Interest on subordinated debt	(759)	(4,227)	(4,986)
Interest and premiums on repurchase/resale agreements and securities lending (note 7(b) and 7(c))	(19,067)	–	(19,067)
Expenses on loan originations	(1,267)	–	(1,267)
Other	(1,053)	(70)	(1,123)
Total interest expense	(48,754)	(6,894)	(55,648)
Net interest income	\$ 119,790	5,738	125,528

(29) Commission and fee income

For the years ended December 31, 2021 and 2020, the main items for which the Institution recorded commissions and fee income in the consolidated statement of income were as follows:

	2021	2020
Credit cards and debit cards	\$ 28,174	21,450
Bank fees	7,162	9,123
Investment funds	4,239	4,418
Insurance	2,173	1,567
Other	8,845	7,538
Total	\$ 50,593	44,096

During 2021 and 2020, the amount of revenues earned by the Institution in trust operations amounted to \$494 and \$456, respectively.

(Continued)



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For the years ended December 31, 2021 and 2020, the main items for which the Institution recorded commission and fee expense in the consolidated statements of income are as follows:

	2021	2020
Credit cards	\$ (11,486)	(9,146)
Effective credit card reward points	(3,014)	(2,336)
Promotion fund collateral	(1,042)	(957)
Cash management and fund transfers	(380)	(319)
Credit placement	(779)	(402)
Appraisals	(360)	(286)
Sale of foreclosed assets	(121)	(139)
Purchase-sale of securities	(185)	(196)
Other	(3,278)	(2,812)
Total	\$ (20,645)	(16,593)

(30) Net gain on financial assets and liabilities-

For the years ended December 31, 2021 and 2020, the main items comprising the net gain on financial assets and liabilities were as follows:

	2021	2020
Valuation result:		
Derivatives	\$ 5,807	(814)
Foreign Currencies	(4,676)	(6,326)
Investments in securities (note 6a and 6.a.3)	(1,185)	(1,078)
	(54)	(8,218)
Purchase-sale result:		
Derivatives	348	7,993
Foreign Currencies	7,338	6,056
Investments in securities	468	2,602
	8,154	16,651
Total	\$ 8,100	8,433

(31) Information by segment

The Institution and its subsidiaries take part in different activities of the financial system, such as credit operations, treasury operations, and transfer of funds from abroad, distribution and administration of investment funds, among others. Performance evaluation, as well as the management of the risks of the different activities, is based on the information produced by the Institution's business units, more than the legal entities in which the results generated are recorded.

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Below are the revenues obtained during 2021 and 2020 that show the different segments as indicated in the preceding paragraph.

2021

<u>Item</u>	<u>Total</u>	<u>Commercial Bank</u>	<u>Corporate and Government Banking</u>	<u>Treasury Transactions</u>	<u>Other Segments</u>
Net interest income	\$ 134,307	104,992	29,855	2,211	(2,751)
Allowance for loan losses	(26,382)	(22,480)	(3,902)	–	–
Net interest income adjusted for allowance for loan losses	107,925	82,512	25,953	2,211	(2,751)
Commissions and fees, net	29,948	21,073	9,759	115	(999)
Intermediation result	8,100	3,766	1,068	2,314	952
Other operating income	2,153	69	246	31	1,807
	148,126	107,420	37,026	4,671	(991)
Administrative and promotional expenses	(66,035)				
Net operating revenues	82,091				
Equity in the revenue of associates	88				
Income before income tax	82,179				
Current income tax	(17,557)				
Deferred income tax (net)	(4,348)				
Income before non-controlling interest	60,274				
Non-controlling interest	(14)				
Net income	\$ 60,260				

2020

<u>Item</u>	<u>Total</u>	<u>Commercial Bank</u>	<u>Corporate and Government Banking</u>	<u>Treasury Transactions</u>	<u>Other Segments</u>
Net interest income	\$ 125,528	92,141	30,991	939	1,457
Allowance for loan losses	(47,090)	(38,685)	(8,405)	–	–
Net interest income adjusted for allowance for loan losses	78,438	53,456	22,586	939	1,457
Commissions and fees, net	27,503	18,514	8,607	365	17
Intermediation result	8,433	2,636	927	4,430	440
Other operating income	1,063	(242)	245	19	1,041
	115,437	74,364	32,365	5,753	2,955
Administrative and promotional expenses	(65,037)				
Net operating revenues	50,400				
Equity in the revenue of associates	39				
Income before income tax	50,439				
Current income tax	(16,777)				
Deferred income tax (net)	2,504				
Income before non-controlling interest	36,166				
Non-controlling interest	1				
Net income	\$ 36,167				

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(32) Risk management and derivatives (unaudited)

Organizational structure

The Institution's Risk Department reports directly to senior management of the Institution, thus guaranteeing its independence of the business units and establishing the necessary autonomy for the development of its activities.

Generally speaking, based on national and international best practices, three specialized Credit Risk Teams have been created: the first aimed to the Wholesale portfolio, with admission, monitoring and recovery functions. The second team focuses on the SME sector and the last one on the Individuals sector, both performing admission and monitoring functions. The three previous teams are supported and complemented by an area dedicated to the management of recovered Non-Financial Assets (NFA). There is also a specific area for the SME and Individuals sectors that concentrates the recovery functions given the common characteristics and synergies involved in performing the function for these sectors. Additionally, management of market, structural and liquidity risks is integrated into a Unit, which also includes the management of risks of non-bank businesses and asset management.

Additionally, the Advanced Analytics, Risk Solutions and Risk Transformation units exist in support of the units mentioned above. Advanced Analytics addresses specialized needs of methodologies and technologies in the Risk areas. Risk Solutions ensures that the areas have the necessary technological resources to carry out their functions and leads the portfolio of projects in this area. Risk Transformation seeks the efficient execution and continuous improvement of the processes of the Risk areas.

The Portfolio Management, Data & Reporting unit has been implemented for the integration, monitoring and generation of reports for the management of the areas, as well as for the measurement of operational risk and loss management. In addition, this area is responsible for the disclosure of information within the scope of Risks with strict adherence to national and international regulations.

In conformity with the Commission's regulatory requirements for the disclosure of the policies and procedures established by credit institutions for comprehensive risk management, below we present the measures established for such purpose by management of the Institution, as well as the relevant quantitative information.

Qualitative information:

Participation of the governing bodies:

The Institution's risk management model is characterized by the direct influence of its corporate entities with regard to both the definition of the risk strategy and the follow-up and continuous supervision of its implementation.

The Institution's Board of Directors approves, at the proposal of the Risk Committee, (i) the objectives, guidelines and policies of the Comprehensive Risk Management, and potential amendments, (ii) the global limits of exposure to risk and, where appropriate, the Specific Risk Exposure Limits, considering the Consolidated Risk, broken down by business unit or risk factor, as well as, where appropriate, the Risk Tolerance Levels, (iii) special cases or circumstances in which both the Global Risk Exposure Limits and the Specific Risk Exposure Limits may be exceeded, (iv) Capital Sufficiency Assessment including the capital estimate and, where appropriate, the capitalization plan, and (v) the Contingency Plan and its amendments.

The Delegated Risk Committee of the Institution's Board approves: (i) the Specific Risk Exposure Limits and the Risk Tolerance Levels, as well as the indicators on liquidity risk, (ii) the methodologies and procedures to identify, measure,

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monitor, limit, control, inform and disclose the different types of risk to which the Institution is exposed and any potential amendment, (iii) the models, parameters, scenarios, assumptions, including those related to stress tests, which are used to conduct the Capital Sufficiency Assessment and to be used to carry out the valuation, measurement and control of the risks proposed by the Unit for Comprehensive Risk Management, which must be in accordance with the Institution's technology, (iv) the methodologies for the identification, valuation, measurement and control of the risks of new transactions, products and services the Institution intends to offer to the market, (v) correction plans proposed by the Chief Executive Officer, (vi) the evaluation of the aspects of Comprehensive Risk Management, and (vii) the level of effectiveness that validation mechanisms of the security elements of the identifications presented by potential clients must have, as well as the technology to carry out the biometric examinations contemplated in the law.

In addition to the other activities in compliance with the applicable regulations and those that are delegated by the Institution's Board of Directors.

Policies and Procedures

Risk manuals are in place that set out the strategy, organization, operational framework, technological framework, methodological framework and regulatory processes according to the needs of each procedure or Comprehensive Risk Management policy of the Institution.

A training program on risks and regulatory disclosure is also in place, including defined and delimited third-party liability.

Tactic decision making

The Institution's management model guarantees the independence of the Comprehensive Risk Management Unit, which establishes monitoring processes through reports and alerts to detect instances of impairment, together with business objective departures and the structure of limits defined by risk type.

The Institution's different risk units participate in the preparation of the Risk Appetite the Institution is willing to assume to attain its business objectives and which must be submitted, as regards general and specific issues, and sub-limits by the Risk Committee to the Board of Directors, for approval, if any.

The Institution has adequate authorization processes for new products and/or services that imply risks and which include the ratification of each individual product and/or service by the Risk Committee.



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Tools and analytics

Continuous measurement of credit, market and liquidity risks under consistent methodologies and parameters. Budgets are prepared for these metrics, which serve as the basis for the Institution's risk management.

In the reports, the risks incurred by the different business units of the Institution are monitored and analyzed. In said monitoring the Risk Metrics, Risk Appetite, Main Concentrations, Compliance with Regulatory Limits, the Analysis of Credit Stress, Calculation of Regulatory Capital Requirement, Structural Risks, Market Risks, Liquidity Risk, Operational Risk and Legal Risk.

The methodologies and parameters for measuring risks are periodically calibrated and submitted for the approval of the competent entities.

The establishment of periodic sensitivity analyses, testing under extreme conditions and review and improvement of models.

The establishment of monitoring and operational and legal risk control methodologies in conformity with international standards.

Information

Information is the cornerstone of risk management and is utilized for preventive management based on the definition and establishment of early warning indicators and metrics to anticipate risk profile movements - positive and negative - (clients, portfolios, products, asset classes). It is also used to avoid impairment and indicate departures and potential threats derived from all risks and defined axes during the different phases (current, impaired and in recovery), at all the organizational levels of the risk function (risk units in the different business areas, corporate area and specialized areas) and corporate entities, thereby ensuring its coherence and compliance with applicable regulatory requirements.

It is assured that the data used in the preparation of the reports come from unified sources by type of risk, reconciled, traceable, automated to a greater extent (or if they are manual, with controls), with a single definition, guaranteeing the frequency, distribution and confidentiality of the "reporting" among other aspects.

Technological Platform

The source and calculation systems for risk measurements are periodically reviewed and a process of continuous improvement is carried out to guarantee the quality and sufficiency of the data and aiming, to the extent possible, to automate processes.

Audit

Internal Audit in compliance with the obligations indicated in the Banking Regulations (*Circular Única de Bancos* or CUB), conducts on an annual basis a Comprehensive Risk Management Audit in accordance with the legal provisions applicable to the matter, which is sent to the Commission. The recommendations in each of the audits are periodically monitored by the Audit Committee delegated by the Board of Directors.

Similarly, compliance audits in accordance with the Banking Law, the Banking Regulations and other legal provisions applicable to the Institution are conducted by independent experts, whereby it has been concluded that the risk measurement models, systems, methodologies, assumptions, parameters and procedures comply with their

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functionality in response to the characteristics of the Institution's operations, instruments, portfolios and risk exposures.

The Institution considers that to date, it fully complies with the "Regulations on matters of risk management". It also continues with measurement and limitation improvement projects, automation of processes and methodological refinements.

Methodological framework:

For risk purposes, the Institution's balance sheet is broken-down as follows:

(a) Market Risk:

Transactions and investment portfolios – Investment in securities for trading purposes, repurchase agreements and transactions with derivative financial instruments.

Structural Balance – Available for sale, remaining transactions, including securities held to maturity and derivative financial instruments for structural risk management of interest rates and exchange rates.

(b) Credit Risk:

Enterprises and Large Enterprises – Traditional loan portfolio, including small and medium-sized enterprises as well as exposures for investments in issuances as counterparties in derivative financial instruments.

Consumer – Credit cards and non-revolving consumer loans.

Mortgage – Mortgage loans.

For purposes of calculating capital and reserves, advanced internal models are used in the Credit Card, Enterprises and Large Enterprises portfolios; such models are approved by the Commission.

Within the Wholesale Portfolio, the definition of subgroups based on the sales figure function has been established as a global criterion:

Sales volume	Segment
>60 millions MXN	Enterprises
>=50 millions and <60 millions USD	Large Enterprises (Corporate)

Non-revolving consumer portfolios, mortgages and commercial portfolios with sales volumes of less than \$60 use standard models to calculate capital and reserves.

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(c) Liquidity risk:

Banking business, with positions on and off-balance, including loans, traditional deposits, investments in securities, derivatives, wholesale financing, etc.

Furthermore, if there is a contractual obligation, the follow-up and control over the liquidity risk of the banking business includes liquidity which might be required by its subsidiaries, entities belonging to the same financial group or relevant related parties, and liquidity which the banking business itself might require from some of such entities or related parties.

Credit Risk

Methodological information

The measurement of credit risk is associated with volatility of expected revenues and has two basic measures: Expected Loss (EL) and Unexpected Loss (UL).

The EL of a portfolio represents the average credit balance which is not expected to be recovered, plus the net of the losses incurred for its recovery and is considered as an inevitable business loss from granting loans over time. The calculation of the Global EL of each portfolio first requires the determination of the EL for each borrower; for this reason, the model focuses initially on an individual situation

$$\text{Expected Loss} = \text{Probability of Default} \times \text{Loss Given Default} \times \text{Exposure}$$

<u>Portfolio *</u>	<u>Percentage of expected loss</u>	
Commercial	0.70%	
Consumer	5.10%	
Mortgage	0.40%	
<u>Portfolio *</u>	<u>PD</u>	<u>LGD</u>
Commercial	1.60%	34.50%
Consumer	5.90%	86.20%
Mortgage	1.90%	20.80%

*The parameters are weighted on the current portion of each of the portfolios and are calculated based on the Institution's internal models, for the portfolios for which these models have been approved (CC, Enterprises, Large Enterprises and Mortgages) and under the standard method for the others.

Probability of Default is that of a client defaulting its obligations. The elements that make it possible to determine this factor are risk rating by customer, migration of credit quality and condition of past due portfolio.

Loss Given Default is that net economic loss from the recovery of a financing, the elements that allow to determine this factor are recovery expenses (award and sale) and type of collateral.

Exposure refers to the maximum amount of the balance at the time of default, the elements that allow determining this factor are size of facility, facility use and type of product.

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Once the level of expected loss is determined, its volatility determines the amount of economic capital necessary to cover the identified risks. Given that credit losses can vary significantly over time, it can be inferred that by creating a fund with an amount equal to the average loss, the credit risk will be covered in the long term; However, in the short term fluctuations and, therefore, risk persists generating uncertainty, so it must also be covered with a second fund that serves as a guarantee to cover when these exceed the average losses.

From our standpoint, the average losses can be supported with the creation of an allowance for loan losses which should be treated as a cost of the credit business, while the second fund, created to cover unexpected losses, should be assured by setting aside a specific amount of capital which may be used or not, but which assures the solvency of the Institution in the event of above average losses. This allocated capital therefore depends on how volatile the credit losses are over time and is known as Economic Capital, so as to give it a risk connotation.

The level of solvency desired by the Institution has to be established in the calculation of the UL, in such a way that the amount allocated covers the volatility of the losses a specific number of times, thus assuring a specific credit quality for the bank at a certain level of probability. This solvency probability is determined by using the risk classification with which the Institution wishes to operate; consequently, the economic capital will have to be equal to the amount necessary for the probability to materialize. Furthermore, the origination models (Scorings or Ratings) are defined for use in all the transaction and portfolio levels and in the behavior models they are established for the most important portfolio, which is Credit Cards, Mortgages, and Non-Revolving Consumer. These models, apart from supporting the credit decision, are linked with the probability of default established above.

For more information on credit risk and details of Article 88 of the Banking Regulations, go to bbva.mx where a file with all the requirements is published (within the section of investor relations).

Scope and nature of risk information and measurement systems and their reporting

The information systems are housed in a system developed internally for the Institution, which is run in a mainframe IBM environment (Host) as part of the ALTAMIRA unified bank management platform, DB2 databases, and is developed in COBOL.

The Institution ensures that the data used to prepare reports is taken from unified sources by risk type, which have been reconciled, are traceable and essentially automatic (or involve manual sources with controls). This data has a single definition to guarantee reporting frequency, distribution and confidentiality, among other aspects.

Internal model approval

The Institution applies internal methodologies to standardized portfolios, *i.e.*, it does not partially adopt internal methods within portfolios.

The Commission authorized the use of advanced internal models for the first time on June 22, 2009 for the revolving consumer portfolio, and on April 21, 2014 in the case of Enterprises and Large Enterprises, and on November 16, 2018 for the Residential Mortgage Portfolio.

The most recent authorizations for updating parameters were given on October 15, 2020 for Credit Card, on December 17, 2020 for Enterprises, on April 19, 2018 for Large Enterprises, and on August 14, 2020 for Mortgage Portfolio.

Exposure at Default

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The exposure at default (EAD) is defined as the calculation of the used balance in the period under analysis, plus the Available balance and facility granted, adjusted for Credit Conversion Factors (CCF1 and CCF2), respectively, CCF1 and CCF2 are calibrated from historic information.

$$EAD = \text{Used Balance} + CCF1 * \text{Unused Balance} + CCF2 * \text{Limits}$$

Probability of Default

In the calibrations of the probabilities of default, a definition of default based on 90 days is used, which matches the default definition used by Basel II.

Consequently, for the Institution, a transaction/customer will be considered “bad” or in default when either of the following options arises:

- 90 days have elapsed since the day of the first payment default.
- The amount should go through a materiality filter so that the transaction/customer is considered in default.

The materiality filter constitutes the only difference to the definition of default provided in Article 2 Bis 68 of the Banking Regulations.

Loss Given Default

The method used to estimate the severity or LGD is the so-called Workout LGD, based on the cash flow discount of exposures in arrears recovered at different moments in time derived from the portfolio recovery process. The recovery cycle is the process in which a contract goes into arrears and ends when it emerges from such situation. Once a contract goes into arrears, it begins a recovery process known as a recovery cycle in which those movements that increase the debt and which reduce the debt are accounted for. That part which could not be recovered is known as a Loss and if it is expressed as a percentage of the Exposure at Default, it is known as Loss Given Default.

Throughout this recovery process, there is a constant identification of the amounts entering capital accounts, recoveries in memorandum accounts and capital accounts, and the amount of exposure at the time of default. Therefore, the LGD is calculated as the difference between the accrued deposits less discounted recoveries (carried to present value) at the opening date of the cycle, for the exposure at default.

$$\text{Loss Given Default} = \text{LGD} = (\Sigma \text{ entries in default} - \Sigma \text{ recoveries}) / \text{EAD}$$



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Coverage and/or mitigation policies by each type of risk

The creation of personal guarantees or security interests in personal or real estate property, apart from improving the credit structure of the transaction, allows the estimate of the Loss Given Default to be mitigated to reduce the credit reserves derived from the regulatory portfolio classification.

The Institution performs revaluations of the loans, based on the type of collateral, using statistical methods or confirming the existence and physical condition of the collateral. The value of the personal and real estate guarantees is updated each year over the term of the loan, except for those which require an ongoing evaluation (shares listed on stock markets) or for discontinued periods (investment projects).

The Institution has a robust system in place to handle financial security interests in real or personal property and a calculation engine, which have been certified by the Commission according to the integral method to recognize credit risk coverage, provided in Articles 2 Bis 31, 2 Bis 36, 2 Bis 37 and 2 Bis 48 of the Banking Regulations.

The integral approach used for the hedge recognition is governed by the following points:

Adjusted amount of collateral: The adjusted amount of a collateral reduces its market value to take into account the loss in value that it may suffer given the fluctuation of its market price and the fluctuation of exchange rates.

$$CA_i = \frac{C_i}{C_i} * (1 - H_C^i - H_{FX}^i) * \frac{(t - 0.25)_i}{T - 0.25} *$$

Covered and uncovered exposure: The calculation of uncovered exposure (E*) is a cyclical process in which each iteration is incorporated into a new collateral (CA_i) according to the prioritization determined, until there is no eligible collateral to be included in the process.

Internal ratings process: For the Enterprises and Large Enterprises internal model (E&LE), the Institution considers groups III and IV and certain cases from group V of the rules for the capitalization requirements of full-service banks and national credit institutions and development banks of the Commission. Group IV excludes clients with investment projects, as well as small and medium mortgage promoters, and small and medium-sized enterprises (SME) according to the sales volume (clients with transactions valued at less than MXN 60 million). Large promoters are considered from group III.



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Description of portfolios with certified internal models:

A description of the wholesale portfolio, which has been rated according to internal models, is provided below.

Closing E&LE December 2021							
Risk Scale	Available	Balance	Exposure to default	Weighted median LGD	Risk weighted	Exposure non-financial security interest	Exposure security interest
A1	\$ 94,582	670,860	399,912	39.98%	0.45%	\$ 184,560	22,138
A2	1,385	37,966	15,176	38.53%	3.02%	24,002	1,027
B1	278	9,309	8,787	40.41%	4.13%	7,185	667
B2	45	1,798	3,037	38.62%	6.07%	4,954	215
B3	553	19,088	6,348	39.77%	9.56%	8,320	337
C1	580	5,805	6,091	39.70%	17.52%	2,543	416
C2	85	3,208	643	38.54%	33.06%	1,042	163
D	6	3,492	338	41.42%	37.91%	-	22
E	12	6,583	6,427	66.35%	99.90%	347	172
Total	\$ 97,526	758,109	446,759	40.30%(*)	2.52%(*)	\$ 232,953	25,158

* Average weighted percentage

For the credit card internal model, the Institution considers group VI (Consumer and mortgage loans) in accordance with the capitalization rules of the Banking Regulations. Such group matches the loans made to clients -Individuals - who were granted a revolving credit line for personal use.

A description of the credit card and qualified mortgage portfolios under internal models is detailed below:

Credit Card Closing December 2021

Risk Scale	Available	Balance	Exposure to default	Weighted median LGD	Risk weighted
A1	\$ 63,181	58,901	83,760	75.43%	1.63%
A2	16,168	16,153	20,942	77.20%	3.93%
B1	8,917	9,191	11,570	77.07%	5.96%
B2	7,883	8,201	10,194	77.33%	7.58%
B3	8,116	8,274	10,390	78.11%	9.11%
C1	9,491	9,037	12,133	78.23%	11.43%
C2	10,278	9,808	13,382	76.80%	22.55%
D	2,085	1,558	2,704	77.10%	37.87%
E	2,452	1,717	3,027	81.02%	58.64%
Total	\$ 128,571	122,840	168,102	76.48%(*)	7.02%(*)

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Mortgage Closing December 2021

Risk Scale	Balance	Exposure to default	Weighted mean LGD	Risk weighting	Current Exposure	Expired Exposure
A1	\$ 234,846	255,459	20.77%	1.02%	\$ 255,459	–
A2	1,581	4,939	20.88%	6.32%	4,939	–
B1	7,398	2,260	20.62%	8.98%	2,260	–
B2	15,737	2,829	20.79%	9.89%	2,829	–
B3	2,534	2,117	21.09%	9.56%	2,117	–
C1	7,373	3,954	20.52%	26.57%	3,954	–
C2	3,558	2,875	29.62%	69.59%	1,249	1,625
D	3,346	4,215	37.03%	94.10%	352	3,864
E	4,083	1,800	49.93%	99.95%	1	1,799
Total	\$ 280,456	280,448	21.30%(*)	4.43%(*)	\$ 273,160	7,288

* Average weighted percentage.

Analysis of estimated losses according to certified internal models

The backtesting exercise matches estimated losses calculated by using the internal model with incurred losses, so as to determine whether established parameters adequately predict their behavior during an annual timeframe.

The level of reserves is considered to be adequate when, at the close of the annual timeframe, the amount of actual losses accrued for certified portfolios does not exceed the band established for estimated reserves.

The result obtained for certified portfolios during the third quarter of 2021 is detailed below.

Loan Portfolio	Backtesting 3Q 2021			
	*** EL MI Sep20	Clean-up Oct20-Sep21	DIFF \$ (OL* - EL **)	% USE EL Sep 20
CREDIT CARD	\$ 10,166	14,515	4,349	143%
E&LE	9,049	2,908	(6,141)	32%
Mortgage	4,234	2,535	(1,699)	60%
Total	\$ 23,449	19,958	(3,491)	85%

* OL = Observed Loss
** EL = Expected Loss
*** IM = Internal Model

The use of loss is 85% which is considered acceptable.

It should be noted that BBVA established additional allowance for loan losses as of April 2020, with figures as of March 2020, to cover risks that were not foreseen in the different methodologies established or authorized by the CNBV; in order to recognize in credit losses the potential economic impacts of the COVID-19 pandemic. The amount of additional allowances was \$6,544 million.

The variation of the allowance cannot be considered as a variation caused by natural dynamics, but rather a variation driven by the adjustments in the attributes made by adherence to the support plan.

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Rating

The rating module is to provide tools for analysis and valuation which enable a loan classification to be given to a customer based on homogeneous data and criteria for the group. The rating is a tool for customer classification, geared towards company banking and corporate banking.

The rating basically consists of classifying the customer based on a series of quantitative variables, which are obtained from the financial statements (Balance Sheet and profit and loss account) and from a series of qualitative variables (sector, market position, etc.).

Using these variables, a series of rules or red flag signals are established which enable the agent or analyst to clarify specific aspects which require a justification (elevated indebtedness, reduced level of proprietary funds, etc.) which, depending on their importance, might condition the result obtained for the loan to be granted. The rating is part of the information used in the process to make decisions on a transaction and it is the indispensable support to set price policies considering the risk-profitability binomial.

Scoring

The scoring module provides tools for analysis and valuation which enable a credit rating to be fixed with a focus on product based on homogeneous data and criteria for the Institution. There are two types of Scoring:

- Origination scoring, which is obtained at the time of contracting, based on proprietary information of the operation and information requested from the customer, generates a score for each operation.

- Behavioral scoring is obtained each month, based on payments behavior with the Institution. This model, which is used in the assignment of scores for each of the operations, is easy to understand, stable and enables the expert to use it in decision-making

Profitability measurement

Aside from calculating capital requirements derived from its credit risk, the Institution also utilizes internal estimates to measure the profitability of transactions awaiting acceptance and stock. In the case of loans granted to enterprises, large enterprises, IFI, states and sovereign entities, profitability and added economic benefit indicators are calculated during the customer evaluation process.

The Institution utilizes two methodologies to measure loan portfolio profitability. One of these involves measuring profitability based on the regulatory capital calculated according to risk-weighted assets (RoRC), while the other methodology measures Risk Adjusted Return on Economic Capital (RAROEC).



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Interest Rate Risk

Structural balance

Regarding the risk of the Structural Balance of interest rates and exchange rates, sensitivity of Economic Value and Financial Margin are calculated in the face of parallel movements in the curves of +/- 100 bps and in the aggregate for Pesos and UDIs with respect to the US dollar, according to the methodology authorized by the Risks Committee. A system of alerts has been established for previous metrics; monthly follow-up is provided by the Risk Committee and is quarterly presented to the Board of Directors; mitigation measures have been established for those cases in which alert limits are exceeded.

The structural risk measurement system is QRM (Quantitative Risk Management), which in turn incorporates the characterization of the headings of the structural balance sheet according to the financial characteristics of each heading. The methodology behind the economic value consists of estimating the fair value of the positions on the structural balance sheet, through the calculation of the current value of its net future flows (the flows expected from its assets less the flows expected from its liabilities) discounted at market interest rates. By the same token, the methodology behind the net interest income metrics is based on the projection of the interest income and expenses from the structural balance sheet, month-to-month in a 12-month horizon, considering the projected growth of the business. Specifically, the principal assumptions behind the characterization of the headings of the structural balance sheet are as follows:

- Prepayment rates: Supposes an advance payment of certain headings of the structural balance sheet, such as mortgage loans and consumer portfolio.
- Evolution of products which do not have a maturity date: for demand deposits and CC, core or stable and volatile balances are calibrated, and subsequently their evolution over time is forecast.

The assumptions behind the characterization of the headings on the structural balance sheet are modeled based on historical observations, of the same headings of the structural balance sheet and the evolution of the risk factors. At least once a year there is a revision and validation of the adjustment of the models and systems comprising the risk metrics of the structural balance sheet.

To monitor the structural balance risk interest rate and exchange rate, in which the Assets and Liabilities Committee is the executive body responsible for handling the situation. Such committee is not a delegated body of the Board of Directors. It adopts investment and hedging strategies within the policies and risk limits approved by the Board of Directors and the Delegated Risk Committee of the Board.

At the end of December 2021, the aggregate Economic Value Sensitivity and Net Interest Income Sensitivity were MXN (8,262) and (6,327) million, respectively, representing a consumption alert of 69% and 67%, respectively. Sensitivities of +/- 100 bps are presented below:

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Estimated Economic Value Sensitivity (EVS)

<u>Portfolio</u>	<u>(100) bps</u>	<u>+100 bps</u>	<u>Aggregated</u>	<u>Red Flag Use</u>
Mexican pesos	\$ 6,883	(6,634)	(8,843)	
Foreign currency	(3,344)	4,152	(3,344)	
Total	\$ 3,539	(2,482)	(8,262)	69%

12-Month Projection of Net Interest Income Sensitivity (NIIS)

<u>Portfolio</u>	<u>(100) bps</u>	<u>+100 bps</u>	<u>Aggregated</u>	<u>Red Flag Use</u>
Mexican pesos	\$ (4,434)	4,420	(5,768)	
Foreign currency	(1,301)	2,016	(1,305)	
Total	\$ (5,735)	6,436	(6,327)	67%

The use of red flags in the quarter shows the following exposure:

<u>Portfolio</u>	<u>EVS Red Flag Use</u>	<u>NIIS Red Flag Use</u>
Total	68.80%	62.40%

With respect to the annual use of red flags, exposure is as follows:

<u>Portfolio</u>	<u>EVS Red Flag Use</u>	<u>NIIS Red Flag Use</u>
Total	71.40%	58.90%

Market, Liquidity and Operational Risks

Market Risk

With regard to the process for market risk measurement and the operating and investment portfolios, the daily measurement of market risk is made through Value at Risk (VaR) statistical techniques, such as the central measurement:

1. Define the degree of sensitivity in the valuation of positions to changes in prices, interest rates or indexes.
2. Reasonably estimate the expected change for a specific time horizon with certain prices, rates, rates or indexes, considering it the degree to which they can be moved.
3. Reevaluate the portfolio to such expected changes sets and thereby determine the maximum potential loss in terms of value.

In summary, the Value at Risk (VaR) has been fixed based on the view that one day's operation will not lose more than the amount calculated 99% of the time.

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Market, Structural and Non-Banking Risks is responsible for establishing and monitoring the guidelines, methodologies and limits of market risk, counterparty risk, structural risk and liquidity risk of the Institution, establishing the risk measurement parameters, and providing reports, analysis and evaluations to Senior Management, the Risk Committee and the Board of Directors.

The market risk measurement quantifies the potential change in the value of the positions assumed as a result of changes in market risk factors. When significant risks are identified, they are measured and limits are assigned in order to ensure adequate control. The global measurement of risk is made through a combination of the methodology applied to the Trading Portfolios and the Structural Balance. Historical Simulation without smoothing is the official methodology currently utilized to calculate the VaR.

Trading Portfolios

In the specific case of the Institution, the VaR is calculated by Historical Simulation and provided that it will not be lost over the horizon of one more day of said VaR 99% of the time. Two methodologies are used with and without “Exponential Smoothing”, one that weighs the latest market data very strongly and the other that gives the same weight to the information of a whole year of trends.

	<u>4Q 2020</u>	<u>3Q 2021</u>	<u>4Q 2021</u>
VaR of trading securities:			
VaR 1 day	\$ 159	207	181
VaR 10 days	501	645	590
	<u>\$ 660</u>	<u>852</u>	<u>771</u>

	VaR 1 day	VaR 10 days
Value at risk, trade securities		
Interest rate	\$ 162	\$ 529
Equity securities	4	13
Foreign currency	26	83
Vega interest rate	25	78

Furthermore, daily simulations are performed of the losses or gains on the portfolios by means of reassessments under catastrophic scenarios (stress tests). These estimates are generated by applying percentage changes to the risk factors, which were observed in a specific period of the history, which covers significant market turbulence. Every month backtesting is conducted to compare the daily losses and gains that would have been observed if the same positions had been held, by considering only the change in value due to a market movement against the calculation of the value at risk, so that the models used can be calibrated.

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Liquidity Risk

Quantitative information

- (a) Concentration limits regarding the different groups of collateral received and the principal sources of financing.

Apart from the regulatory liquidity ratios and the Institution's liquidity risk control scheme is based on the establishment of limits in three fundamental areas: (i) Self-financing through the LtSCD ratio or Loan to Stable Customer Deposits (maximum relationship of the financing of the net credit investment with stable customer deposits); (ii) financing structure diversification through a maximum amount of Short-Term (FCP); and (iii) Capacity to absorb liquidity shocks through the 30 day Basic Capacity (30d securitized debt certificates– available liquidity buffer coefficient and net outlays of liquidity established within the respective unexpired deadline). There are also red flags to prevent the limits from being exceeded, including the follow-up on other unexpired deadlines. There are also metrics to identify possible threats in advance to allow for the adoption, as the case may be, of the necessary preventive measures, including indicators of financing concentration, foreign exchange liquidity, long-term financing diversification, intraday liquidity, among others.

Quarterly

LtSCD	30%
FCP 12m	\$367,696
Securitized debt certificates 30d	127%

Annual

LtSCD	28%
FCP 12m	\$311,086
Securitized debt certificates 30d	84%

- (b) Exposure to liquidity risk and financing needs at Institution level, bearing in mind legal, regulatory and operational limitations and the transferability of liquidity.

The Institution's exposure to liquidity risk and its financing needs are based on the principle of decentralized and independent management of liquidity (including Banco Bilbao Vizcaya Argentaria, S.A. in Spain or any of its entities), so as to avoid dependencies or subsidies and eventual contagion due to crisis. At all times they take into account the legal, regulatory and operational limitations on the transferability of liquidity of the applicable rules in setting the liquidity risk policies of the Institution, including the regimes for admission of liabilities and investments for liability transactions in Foreign Currency of Banxico, operating rules of the payment systems, risk diversification in the performance of liability operation specified by the Banking Regulations, among others.

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In the case of the investment regime for liability operations in Foreign Currency, apart from the Shortfall regulatory limit, as a preventive measure there is also a red flag system in place which is stricter than the regulatory limit for the investment regime for liability operations in Foreign Currency of the Central Bank.

- (c) The balance sheet flows at the end of December 2021 by maturity and liquidity gaps are detailed below.

<i>Mexican pesos in millions</i>	On demand	30 days	6 months	1 year	More than 1 year	No maturity date	Total
Cash and cash equivalents	\$ 266,614	–	–	–	33,949	–	300,563
Loan portfolio	–	89,886	186,212	108,041	904,013	–	1,288,152
Securities portfolio	–	1,872	48,352	31,309	503,337	–	584,870
Total assets	\$ 266,614	91,758	234,564	139,350	1,441,299	–	2,173,585
Deposit taking	\$ –	162,658	57,280	1,458	–	1,246,890	1,468,286
Debt and subordinated debt	–	4,088	17,965	35,293	107,283	–	164,629
Repurchase/resale agreements payable	–	165,140	748	1,082	7,614	–	174,584
Other, net	–	–	–	–	–	366,088	366,088
Total liabilities	\$ –	331,886	75,993	37,833	114,897	1,612,978	2,173,587
Off-balance	\$ –	(918)	(3,249)	(1,025)	(6,429)	–	(11,621)
Liquidity gaps	266,614	(241,046)	155,322	100,492	1,319,973	(1,612,978)	(11,623)
Cumulative gaps	266,614	25,568	180,890	281,382	1,601,355	(11,623)	–

* Figures in the preceding table only consider the Institution individually, not on a consolidated basis.

Embedded derivatives

Pursuant to the Institution's programs for issuance of structured bank bonds, the Institution hold foreign currency, indexes and interest rates options, equivalent to a nominal of \$23,096. Likewise, the entity has interest rates and foreign currency swaps with a nominal of \$9,210.

Qualitative information

- (l) The manner in which the liquidity risk is managed in the Institution by considering for such purpose the tolerance to such risk; the structure and responsibilities for liquidity risk management; internal liquidity reports; the liquidity risk strategy and the policies and procedures through the business lines and with the Board of Directors.

The liquidity risk management in the Institution is governed by the following principles: decentralized and independent liquidity management; self-financing of the credit activity of the banks; liquidity planning in the process of growth planning in the activity; clear segregation of functions to achieve a proactive management of liquidity risk, including intraday liquidity and management of collateral, establishment of a transfer pricing system and standards for internal use of liquidity; as well as alignment with regulatory requirements.

The structure and responsibilities for liquidity risk management are clearly segregated by function and area:

- Setting of general policies, fundamental metrics and limits. The risk liquidity policies are approved by its Board of Directors, with the prior favorable opinion of the Risk Committee; which bodies approve the liquidity risk limits scheme.

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- Risk identification, measurement and control. The Risks department identifies, measures and establishes measurements to control liquidity risk to which the Institution is subject through the setting, follow-up and reporting of a limits scheme.
- Management of investing and deposits activity. This is performed by the business areas in accordance with the risks policy.
- Liquidity management and financing. This is performed by Finance, through Financial Management.
- Generation of follow-up information. As much as possible, the Systems and Finance areas of the Institution supply the relevant information for purposes of liquidity risk. At the same time, the Risks department promotes the ongoing improvement of information quality to ensure a correct decision-making process.

The status of the limits and red flags is reported through daily internal reports to Senior Management, Internal Audit and the areas that handle risk, even more frequently in times of crisis.

Strategies are outlined within the risk limits approved by the Board of Directors and Risks Committee delegated by the Board and are agreed upon in the Assets and Liabilities Committee, always within the liquidity risk tolerance approved. Also, follow-up is given on the evolution of liquidity risk and excess risk in these bodies.

- (a) Financing strategy, including diversification policies, and whether the financing strategy is centralized or decentralized.

Every year the Institution prepares a growth plan of its activity, considering the business's growth projections, the maturities profile of assets and liabilities, the appetite for risk and projected market conditions. On such basis, the financing plan is prepared in the wholesale markets, seeking to maintain diversification in financing, thus ensuring that there is no excessive dependence on short-term financing.

- (b) Liquidity risk mitigation techniques used by the Institution

The Institution liquidity risk model, based on the principles quoted in subsection (a) of this Section, at all times takes into account the legal, regulatory and operational restrictions on the transferability of liquidity.

Specifically, one of the strengths of the Institution is based on the quality of its funding, which is diversified by type of clients, instruments and markets. With regard to deposits, there is an extensive network of retail and wholesale clients. This attraction of deposits is complemented and strengthened with local and international issues, maintaining constant access to debt markets.



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In the event of liquidity risk limit or alert triggering, there are specific action and communication procedures within the Institution established with a clear definition of roles for the different areas and decision-making bodies, differentiating the communication level based on whether a limit or alert was triggered. Likewise, there is a Liquidity Contingency Plan, which in the event of activation has a stock of actions classified by their typology based on whether they are related or not to the Mexican Central Bank, the wholesale market or the commercial activity.

- (c) An explanation on the use of stress tests

Liquidity risk stress tests are carried out in different stress scenarios, evaluating in each one the buffer coverage state of available liquidity with the liquidity needs of the scenario in question under different temporary horizons and delimiting the survival horizon under different situations. The results of these tests are integral part of the Liquidity Contingency Plan, as they are part of its activation program.

- (d) Description of contingent financing plans.

The Liquidity Contingency Plan or Contingency Financing Plan is set up as a fundamental element of liquidity risk management in moments of liquidity stress.

It contains clear procedures to make decision making easier, as well as to enable a fast adoption of contingent measures and effective communication, specifying functions and responsibilities in these situations, as well as the authority to activate it. It is defined based on four principles: coordination among the involved units, efficient level of information, confidentiality of performances and information and enforceability. This Plan and its amendments are approved by the Institution's Board of Directors, at the proposal of the Chief Executive Officer. Its activation would be carried out by the Asset/Liability Committee, under a "traffic light approach" for the Plan indicators, which allows to distinguish severity of the situation.

Also, the Institution has a Contingency Plan or Recovery Plan that provides for potential actions to be performed with the purpose of restoring its financial situation in different adverse scenarios that could affect solvency and/or liquidity. This plan describes the bank situation detailing key business lines, recovery indicators, corporate governance for its preparation, as well as in the case of occurrence of adverse scenarios and the process to implement recovery measures. This plan is also approved by the Board of Directors at the proposal of the Risk Committee and prepared by the Chief Executive Officer.

Liquidity Coverage Ratio (LCR)

The LCR quantifies the potential capacity of the Bank to face its 30-day liquidity needs, with available liquid assets, under a stress scenario.

According to the information disclosure requirements set forth in Exhibit 5 of the General Regulations on Liquidity Requirements for Banking Entities, below, a Liquidity Coverage Ratio Disclosure Form for the 2021 fourth quarter must be submitted. As of December 31, 2021, there are no computable liquid assets and therefore there is no determination of the liquidity coverage ratio.

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Liquidity Coverage Ratio	Unweighted amount	Weighted amount
Computable Liquid Assets		
Total computable liquid assets	\$ NA	\$ 556,346
Cash outflows		
Stable financing	\$ 625,952	31,298
Less stable financing	216,844	21,684
Unsecured retail financing	842,796	52,982
Operational deposits	292,936	70,364
Non-operational deposits	230,364	96,884
Unsecured debt	2,592	2,592
Unsecured wholesale financing	525,892	169,840
Secured wholesale financing	266,747	224
Outflows related to derivate financial instruments	27,818	21,507
Facilities and liquidity	594,486	36,927
Additional requirements	622,304	58,434
Other contractual financing obligations	88,534	11,107
Total cash outflows	NA	\$ 292,587
Cash inflows		
Cash inflows from secured transactions	\$ 34,948	-
Cash inflows from unsecured transactions	94,695	55,016
Other cash inflows	5,073	5,073
Total cash inflows	\$ 134,716	60,089
Total computable liquid assets	NA	556,346
Total net cash outflows	NA	233,023
Liquidity Coverage Ratio	NA	240.24%

(a) Calendar days in the 2021 fourth quarter are 92 days.

(b) Main causes of the results of LCR and the evolution of their main components:

The quarterly average CCL increases due to the increase in liquid assets. This increase is greater than that of the net outlays. The increase in liquid assets is due to the growth of traditional deposits, mainly wholesale, and to the result of the quarter.

Item	Weighted amount (average)		Change	
	4Q-21	3Q-21	Money	Percentage
Computable liquid assets	\$ 556,346	\$ 501,930	\$ 54,416	\$ 10.8%
Outflows	292,588	284,653	7,935	2.8%
Inflows	59,565	52,938	6,627	12.5%
Outflows	233,023	231,715	1,308	0.6%
LCR	240.14%	216.69%	23.45%	-

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(c) Main changes of the LCR components in the quarter.

Item	Oct-2021	Nov-2021	Dec-2021
Liquid assets	\$ 509,322	538,634	620,510
Outflows	281,427	290,407	305,859
Inflows	57,168	63,784	57,880
Net outflows	224,259	226,623	247,979
LCR	<u>227.26%</u>	<u>242.94%</u>	<u>250.32%</u>

Liquid assets and outflows increased during the fourth quarter of 2021 due to increases in deposits, mainly wholesale, and the result of the quarter.

(d) Evolution of the composition of Eligible and Computable Liquid Assets

Computable Liquid Assets

	4Q-21	3Q-21	Change
N1 Cash and Banks	\$ 303,086	282,288	20,798
N1 Securities	248,556	214,524	34,032
N2 A	3,721	3,889	(168)
N2 B	983	1,228	(245)
Total	<u>\$ 556,346</u>	<u>501,929</u>	<u>54,417</u>

As a consequence of the increase in deposits, there was an increase in Level 1 liquid assets of + MXN 31 million.

(e) Concentration of financing sources

One of the great strengths of the Institution is the quality of its funding, which is diversified by type of clients, instruments and markets. Regarding deposits, there is an extensive network of both retail and wholesale clients. This attraction of deposits is supplemented and strengthened with local and international issues, over different terms, and constant access is maintained with debt markets. The following table shows the Institution's funding structure at the end of December 2021.

<u>Sources of financing (December 2021)</u>	<u>% of total liabilities</u>
Customers' deposits	79.50%
Collateralized financing	9.45%
Securities	4.76%
Subordinate obligations	3.90%
Money market	0.25%
Interbank	<u>2.14%</u>
Total	100%
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- (f) Exposures in financial derivatives and possible margin calls.

Exposure, according to current local exposure guidelines in derivatives for the LCR corresponds to a contingent outlay of transactions involving derivative financial instruments (LBA: Lookback Approach) is detailed below:

<u>Description</u>	<u>4Q-21</u>
Contingent outlay (Look Back Approach)	\$ 18,650 =====

- (g) Mismatch of foreign currencies

Liquidity risk associated to transactions in foreign currency is covered according to the provisions on the liquidity coefficient in foreign currency (ACLME), established by the Central Bank. Also, risk associated to exchange rate is duly funded and managed within the regulatory limits.

- (h) Cash flow outlays and receipts that, if appropriate, are not captured in this framework but which the Institution considers relevant for its liquidity profile.

The Institution considers that all relevant flows are covered in the LCR metric calculation, for which reason there are no additional flows to be considered.

Operational Risk

- (1) Definition and valuation

Aware of the importance of considering all aspects associated with operational risk, the Institution has implemented comprehensive risk management which not only includes the quantitative aspects of risk, but also seeks to measure other elements that require the introduction of qualitative evaluation mechanisms.

According to the Banking Regulations issued by the Commission, operational risk is defined as: "The potential loss due to failures or deficiencies in internal controls, due to errors in the processing and storage of Operations or in the transmission of information, as well as due to adverse administrative and judicial decisions, fraud or theft and includes, among others, technological risk and legal risk, provided that:

- (a) Technological risk is defined as the potential loss due to damage, interruption, alteration or failures derived from the use of hardware, software, systems, applications, networks and any other information transmission channel in the provision of banking services to the Institution's clients.
- (b) Legal risk is defined as the potential loss due to non-compliance with the applicable legal and administrative regulations, the issuance of unfavorable administrative and judicial resolutions and the application of sanctions, in relation to the operations carried out by the Institution".

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Operational risk originates from the probability of human errors, inadequate or defective internal processes, system failures and the result of external events that could represent a loss for the Institution. This definition includes legal risk and excludes strategic or business risk and reputational risk.

Operational risk management is integrated into the Institution's global risk management structure, which has established and maintains robust internal models that allow timely knowledge of the materialization of operational risk events.

The Portfolio Management, Data & Reporting Unit is in charge of the operational risk measurement, which is independent of the Market Risk and Credit Risk units, and the Audit, Regulation and Internal Control units.

Losses derived from operational risk recorded in 2021 were MXN \$1,000 million, mainly due to operational items related to tax payments (updates, surcharges and fines). The monthly average of losses derived from operational risk recorded in 4Q-21 was MXN \$42 million, mainly due to internal fraud events and fines.

(2) General operational risk model

The operational risk management model is based on a cause-effect model which identifies the operational risk associated with the Institution's processes through a continuous improvement circuit.

- Identification. Consists of determining which risk factors (circumstances which can become operational risk events) reside in the processes of each business/support unit.
- Quantification. The cost that can be generated by a risk factor is determined by using historical data (database of operating losses) or estimated in the case of risks which have not arisen as past events. This quantification is based on two components: occurrence frequency and monitoring the impact generated in the event of occurrence.
- Mitigation. After having identified and quantified operational risk factors, if this risk exceeds desired levels, a mitigation process is implemented to reduce the risk level by either transferring it or implementing control measures that reduce the frequency or impact of an event.
- Follow-up. Qualitative follow-up is provided to analyze the evolution of the operational risk, which involves evaluating the implementation level of mitigation measures. Quantitative follow-up consists of measuring the evolution of causal operational risk indicators, while also analyzing the evolution of operational risk losses.

Additionally, specific management schemes have been established for technological risks and those derived from legal proceedings.

In the case of the former, in addition to the general operational risk methodology, Information Security & CISO ensures that identified risks and mitigation plans are standardized throughout the Institution and are compliant with logical security.

Regarding judicial processes, in addition to the operational risk management circuit of legal processes, the probability of adverse resolution is calculated on the inventory of administrative processes and legal claims where the Institution is a plaintiff or defendant. Based on the foregoing, the Institution considers that the main factors that influence legal risk are: degree of non-compliance with regulation; types of judicial process in which

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it is involved; amount demanded and probability of unfavorable resolution.

The Institution has a comprehensive internal control and operational risk methodology. This methodology allows risk identification in the organization areas, the generation of analyses prioritizing the risks according to an estimated residual (after incorporating the effect of controls), linkage of risks to the processes and establishment of a target level for each risk which, in comparison to their residual risk, identifies weaknesses that must be managed.

(3) General operational risk model

The framework of operational risk management defined by the Institution includes a structure based on the three-line defense method with clear demarcation of the responsibilities, policies and procedures common to the entire Institution. For its operation it has systems to identify, measure, monitor, control and mitigate the operational risks and losses, as well as tools and methodologies to quantify the operational risk.

1st Line of Defense – Business Units

The owners of processes and controls manage the operational risk of their respective areas and are in charge of identifying and evaluating operational risks, carrying out the controls and executing mitigation plans for risks that present control weaknesses.

Those in charge of Internal Control in Business Units and support areas (ICOs) coordinate the management of operational risk of their Units and are responsible for ensuring adequate operational risk management in their Area, extending the methodology for risk identification, promoting the implementation of necessary mitigation measures and controls in all operating processes performed and outsourced by the Area and monitoring their proper implementation and effectiveness.

2nd Line of Defense – Internal Control Specialists (ICs)

- Non-Financial Risks Unit

Non-Financial Risks, through the Head of Internal Control, is responsible for designing and maintaining the Group's Operational Risk management model and for assessing the degree and updating the degree of application in the business and support areas.

- Define methodology, systems and tools.
- Promote interaction between the areas responsible for internal control and control specialists and ensure compliance with the corporate plan.
- Keep Senior Management informed.

- Risk Control Specialists (RCSs)

Risk Control Specialists (RCSs) define the Mitigation, Control and Monitoring Framework in their field of specialty and contrast it with the one implemented by the first line of defense.



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- Responsible Business.

It is responsible for the management of Reputational Risk, in coordination with the Group's internal control model in those cases where Reputational Risk derives from operational events.

3rd Line of Defense – Internal Audit

Performs an independent review of the control model, verifying compliance and effectiveness of the established policies.

Operational risk management at the Institution is designed and coordinated at the Head of Non-Financial Risks, aligned with Grupo BBVA (in Spain) corporate criteria. Business or support areas have, in turn, Internal Control officers (ICOs) who functionally report the Head of Non-Financial Risks, and who are responsible for implementing the model daily at the business areas. Thus, the Institution has a vision in the front of the process, where they identify and characterize operational risk and make decisions on mitigation.

To carry out this task, the Institution has tools in place to cover the qualitative and quantitative aspects of operational risk:

- Operational Risk Management Tool – The STORM corporate tool documents the identification and management of the most important risks which constitute the reference to focus attention on the Internal Control Supervision Committees of the business and support units, and on the delegated Risk Committees meetings of the Board held during the year. This tool includes indicator and scenario modules.
- In MIGRO, the mitigation, control and monitoring framework is documented, which includes details of the mitigating factors, indicators and controls implemented by the first line of defense to cover the different operational risks existing in its activity.
- SIRO Tool – Operational risk events almost always have a negative impact on the accounts of the Institution. To ensure detailed control over them, they are registered in a database known as SIRO (Operational Risk Integrated System). To ensure reliability it receives the information directly from accounting by automatic interfaces in 98% of the cases.



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(4) Governance Model

Management by each Area of its operational risks is channeled through the Internal Control Supervision Committees of the Area, where its Management analyzes the situation of its control environment and promotes and monitors the necessary mitigation actions to address any observed weaknesses. Risk Control Specialists carry out the contrast of the proposed actions.

Relevant aspects of operational risk management derived from the Internal Control Supervision Committees are reported to the Senior Management, as well as to the Delegated Risk Committee of the Board, the Audit Committee delegated by the Board and the Board of Directors, through a reporting scheme coordinated by the Head of Non-Financial Risks, which encourages the highest level of the Institution to be permanently involved in the management of operational risks and the functioning of the internal control system.

(5) Capitalization for operational risk

Based on the changes to the Banking Regulations published by the Commission on December 31, 2014, which define the methodological criteria to determine the capital requirement for operational risk through the Basic, Standard, and Alternative Standard approaches, the Institution requested and obtained authorization from the Commission, to use the Alternative Standard method to calculate the capital requirement for operational risk.

(6) Alternative Standard Method

The Alternative Standard Method consists of a simple totaling of the net revenues for each of the eight business lines, multiplied by the factors related to each line, except when it involves the calculation of the capital requirements for operational risk of the retail banking and commercial banking business lines, for which the capital requirement will be calculated by substituting the monthly net revenue of each of these lines of business, for the amount exercised of monthly loans and advances for each business line, multiplied by a fixed factor “m”, which will be 0.035.

The factors to be used by business line are as follows:

<u>Business lines</u>	<u>% Applicable to each business line</u>
Corporate finance	18
Transactions and sales	18
Retail banking	12
Commercial banking	15
Payments and settlements	18
Agency services	15
Asset management	12
Retail brokerage	12

To calculate the net revenues and the amount exercised of loans and advances, it is essential to consider the amount applicable to the 36 months before the month for which the capital requirement is being calculated and must be grouped into three periods of 12 months to determine the annual net revenues.

(Continued)



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The general objective of the risk management policies is to avoid material losses derived from the Institution's exposure to risks. The support programs mentioned in note 9 have not generated uncertainty about the continuity of the Institution as a going concern. Proof of this are the levels of the financial indicators disclosed in note 33, which reflect the financial stability of the entity.

(33) Financial indicators (unaudited)

As of December 31, 2021 and 2020, according to article 182 of the Banking Regulations, the Institution's financial indicators are as follows:

	<u>2021</u>	<u>2020</u>
Delinquency ratio	1.73%	3.01%
Hedge ratio of portfolio of non-performing loans	153.35%	128.68%
Operating efficiency	2.70%	2.84%
ROE	22.96%	15.82%
ROA	2.46%	1.58%
Capitalization ratio credit and market risk	19.16%	17.52%
Basic capital 1 on credit, market and operational risk	16.67%	14.40%
Liquidity	65.12%	65.70%
Net adjusted interest margin (for its acronym in Spanish "MIN")/Average Productive Assets	4.73%	3.74%

(34) Ratings

As of December 31, 2021, the ratings assigned to main subsidiaries the Institution are as follows:

<u>Rating Agencies</u>	<u>Global Scale ME</u>		<u>Domestic Scale</u>		<u>Perspective</u>
	<u>Long Term</u>	<u>Short Term</u>	<u>Long Term</u>	<u>Short Term</u>	
Standard & Poor's	BBB	A-2	mxAAA	mxA-1+	Stable
Moody's	Baa1	P-2	Aaa.mx	MX-1	Negative
Fitch	BBB	F2	AAA (mex)	F1+ (mex)	Stable

(35) Commitments and contingent liabilities

(a) Leases

The Institution leases buildings and premises occupied by some retail branches, as well as computer equipment and software licenses mainly, according to lease agreements with different terms. For years ended as of December 31, 2021 and 2020, the total expense for leases amounted to \$6,824 and \$6,236, respectively and is included in the caption "Administrative and promotional expenses" in the consolidated statement of income.

(b) Administrative services

Until June 30, 2021, the Institution had entered into a contract agreement with BBVA Servicios Administrativos México, S. A. de C. V. and BBVA Operadora México, S. A. de C. V., for the provision of administrative and promotional services. These payments amounted to \$11,271 and \$25,558, in 2021 and 2020, respectively, and are included under the caption "Administrative and promotional expenses" in the consolidated statement of income (note 22).

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(c) Contingencies

As of December 31, 2021 and 2020, there are claims against the Institution in ordinary civil and commercial actions, as well as assessments by the tax authorities; however, in opinion of its lawyers, claims filed are considered inadmissible and, in the event of unfavorable resolutions, they would not affect significantly the Institution's financial condition. For such purposes, as of December 31, 2021 and 2020, the Institution has weighted the impacts of each one of them and has recorded a reserve for these contentious matters of \$778 and \$644, respectively.

The legal contingencies movement for 2021 and 2020 is as follows:

Initial balance			Ending balance
2021	Reserve	Application	2021
644	315	(181)	778
Initial balance			Ending balance
2020	Reserve	Application	2020
630	208	(194)	644

As of December 31, 2021 and 2020, there are claims against the Institution in labor actions; however, in opinion of its lawyers, claims filed are considered inadmissible and, in the event of unfavorable resolutions, they would not affect significantly the Institution's financial condition. For such purposes, as of December 31, 2021 and 2020, the Institution has weighted the impacts of each claim and has recorded a reserve for these labor matters of \$990 and \$718, respectively.

The movement of the claims against the Institution in labor actions for the 2021 and 2020, is as follows:

Ending balance			Ending balance
2021	Reserve	Application	2021
\$ 718	417	(145)	990
Initial balance			Initial balance
2020	Reserve	Application	2020
\$ 683	123	(88)	718

For the type of contingencies referred to in the previous descriptions and to depend on the third-party performance, it is impractical to quantify the inputs or out puts of resources, as well as the eventuality obtaining reimbursements.

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(36) Impacts of the new reference interest rates

Financial markets regulators, both in Mexico and internationally, are carrying out improvements to the regulation to replace or modify the determination of the reference interest rates used in the financial markets. Examples of these rates are the Interbank Offering Rate in Mexico (TIIE, for its acronym in Spanish), as well as the London Interbank Offered Rate, known as LIBOR, the Euro Interbank Offered Rate, known as EURIBOR, or the Prime Offering Rate, used in the United States of America (USA) for certain interbank transactions. Some of these rates are also called Interbank Offered Rates or IBOR rates.

The purpose of the regulators is to replace IBOR rates (which are weighted average interest rates at which banks agree to lend to the central bank or to each other) with interest rates that are risk-free, that is, rates at which at the end of each day long positions or short positions are covered between the institutions of the financial system. The objective is that these are real transaction interest rates, and that they correspond to transactions guaranteed with repo agreements that reduce risks and volatility, and not offered interest rates.

In this sense, during the fourth quarter of 2021, the Central Bank published a document related to LIBOR Rate Transition Process to new reference rates aligned with international standards, highlighting that as there is greater certainty on the dates of cessation of publication of the LIBOR rates, in order to continue promoting the sound development of the financial system and in line with the recommendations of various international authorities. The document calls on local market participants so that, after December 31, 2021, LIBOR rates cease to be used as a reference for new contracts entered into in Mexico. Additionally, the use of the new risk-free rates (RFR) is recommended in a new contract entered into after December 31, 2021.

Likewise, the Central Bank published amendments to the following provisions corresponding to the new reference rates, as part of the actions that facilitate an orderly and timely transition:

- Provisions applicable to transactions of credit institutions, regulated multiple-purpose financial companies that maintain patrimonial links with credit institutions and the National Financial Institution for Agricultural, Rural, Forestry and Fisheries Development” contained in Circular 3/2012.
- General provisions referred to in Article 4 of the Law for the Transparency and Regulation of Financial Services in matters of interest rates, contained in Circular 14/2007, in matters of external reference rates.

On the other hand, in October 2019, the CINIF issued Interpretation to Mexican FRS 22, “Recognition of the expected effect on hedging relationships due to expected changes in reference interest rates”, which focused on the expected effectiveness of hedging relationships due to changes expected in interest rates, establishing a practical solution to assume that the current reference interest rate will continue to exist until the end of the hedging relationship, which will continue to meet the requirements of its effectiveness and in October 2020 the CINIF issued the Interpretation to Mexican FRS 24 “Recognition of the effect of the application of the new reference interest rates”.

The Interpretation to Mexican FRS 24 addresses the issue of recognition of the transition effect to the new reference interest rates.

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The Commission granted confirmation of criteria to the Mexican Association of Banks (ABM for its acronyms in Spanish) on the homogeneous treatment that credit institutions must follow, referring to the fact that the modifications in the contractual conditions of the credits subject to a interbank offering rate, which are originated by the IBOR rate reform, should not be considered as a restructuring in accordance of what is established in B-6 Loan Portfolio, as long as the following is met:

- (a) The interest rate is modified solely and exclusively as a direct consequence of the IBOR reform, and
- (b) Similar Cash flows to the original ones are generated, that is, the new contractual interest rate is economically equivalent to the previous interest rate.

Transition process towards new reference rates

In line with the best market practices and recommendations of the different international organizations and working groups, the Institution launched a transition process since the end of 2019.

In order to address the project, a management level Coordination Committee was established, with representatives from each of the affected areas, as well as specialized working groups for each of the matters involved. The action plans to be carried out were defined based on an initial impact assessment diagnosis.

The project was defined in three key phases:

- Phase 0 – Evaluation: in this preliminary phase, an analysis of the businesses, products, systems and processes affected in each unit or subsidiary was carried out. This phase was carried out during the second half of 2019.
- Phase 1 – Enabling: in this phase, the necessary conditions have been created to operate products linked to RFR: adapting processes and operating systems, conduct financial and risk analyses, as well as impact assessment through appropriate metrics. This phase has been carried out throughout 2020 and 2021.
- Phase 2 – Migration: in this last phase, the migration of IBOR-related transactions whose maturity is beyond the dates of cessation of publication of the reference index (June 2023, with respect to the USD LIBOR) will be reviewed. Among possible actions, it is considered to carry out portfolio compression, migration of live transactions, renegotiation of some contracts, etc. This phase is planned to be developed, to a greater extent, throughout 2022; without ruling out necessary actions to be carried out in advance, as required by clients and/or the regulators themselves (as was the case of the migration of derivative transactions in Clearinghouses and linked to Eonia).

The general schedule of the project currently extends until June 2023 and has been adapted throughout the life of the project, as needed.

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Quantitative Disclosures

The interest rates to which the Institution is exposed by currency according to the IBOR reform are shown in the following table:

Currency	Reference rate prior to reform	Reference rate after the reform	Status as of December 31, 2021
USD	USD Libor	SOFR	In process
USD	USD Libor	FED FUND	In process
GBP	GBP Libor	SONIA	NA
CHF	CHF Libor	SARON	NA
JPY	YEN Libor	TONAR	NA
EUR	EURIBOR	EURIBOR	Completed
EUR	EONIA	ESTR	Completed

The Institution has monitored the transition process from the IBOR rates to the new reference rates, reviewing the volume and amount of the contracts for which the transition process to an alternative reference rate has not yet been completed, as well as the contracts that have an appropriate reserve clause. As follows:

- Variable rate loans with clients: USD Libor
- Investments in floating rates financial instruments: USD Libor, Euribor
- Mortgages (USD Libor, Euribor)
- The Institution's Issuances (USD Libor, Euribor)
- Bonds (USD Libor)
- Interest rate derivative financial instruments (USD Libor, Euribor)
- On demand checking accounts with interest (USD Libor, Euribor)

As of December 31, 2021, the Institution maintains IBOR rates exposures with respect to loans and financial assets as shown below:

	Notional
Collateral received:	
EONIA	\$ 279
FED FUNDS**	<u>694</u>
	<u>973</u>
On demand loans:	
EURIBOR*	2,697
LIBOR USD	<u>43,288</u>
	<u>45,985</u>
Total collateral and loans, carried forward	\$ <u>46,958</u>

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		Notional
Total collateral and loans, brought forward from previous page	\$	<u>46,958</u>
EONIA		9,085
ESTR		19,151
EURIBOR		206,521
FED FUNDS		160,144
LIBOR USD Rest of tenors		1,721,391
SOFR		<u>12,889</u>
Rates Derivatives		<u>2,129,181</u>
EURIBOR		93
LIBOR USD Rest of tenors		<u>62,428</u>
Loans – Bilateral		62,521
Loans – Syndicates – LIBOR USD rest of tenors		<u>35,460</u>
Loans ORI		<u>97,981</u>
Total general	\$	2,274,120 =====

* The reference rate EURIBOR is not contractually modified, only the calculation methodology changed (ESTR + 8.5 bps)

**The FED FUNDS reference rate does not have any contractual or methodology modifications.

The Institution has the following accounting list of cash flow and fair value hedges, which will be affected by the IBOR Transition.

The nominal amount of the hedging instruments directly affected, as of December 31, 2021, is as shown below:

		<u>Par value</u>
		<u>2021</u>
USD	\$	3,764
EUR		201
GBP		<u>47</u>
Fair Value Hedge	\$	4,012 =====
USD	\$	628
EUR		<u>377</u>
Cash Flow Hedge	\$	1,005 =====

The Institution, as part of the transition work, keeps track of the transactions, referenced to Libor rates the maturity of which extends after June 2023 and therefore will be subject to migration, as mentioned in the next page.

(Continued)



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- 476 loan agreement at a floating rate
- 3,188 derivatives transactions
- 34,844 remunerated deposit accounts (checkbooks and deposits)

USD Libor

December 31, 2021	Nominal referenced to USD Libor	Nominal pending updating due to IBOR reform (Maturity after June 2023)
On demand loans	43,288	43,288
Derivatives	1,721,391	1,378,516
Loans	<u>98,607</u>	<u>82,432</u>

Migration status

During 2020 and 2021, the migrations detailed below were carried out, which are not classified as restructuring, since the modifications were made as a result of the IBOR transition and the generation of cash flows are similar to the original ones.

	<u>Transactions</u>	<u>Currency</u>	<u>Date</u>
Discount curve transition of Clearinghouse Derivatives Transactions (LCH)	227 IRS	EUR	July 27, 2020
Discount curve transition of Clearinghouse Derivatives Transactions (LCH)	1,649 IRS	USD	October 16, 2020
Discount curve transition of Clearinghouse Derivatives Transactions (CME)	2,089 IRS	USD	March 26, 2021
Replacement of estimation curve of Clearinghouse Derivatives Transactions (CME)- underlying assets	53 IRS	EUR	October 16, 2021
OTC Derivatives Transactions in EUR	53 Transactions 3 Counterparties	EUR	December 2021

Potential Changes in the Risk Management Strategy

Some effects of the replacement of the LIBOR Rate for the different terms of the LIBOR Rate are described below:

- The risks that implied by the new RFR are equivalent to the risk acquired with exposures prior to migration (Libor), which naturally compute in the risk and capital consumption limits defined by the Risk unit for this activity.

The management and monitoring of limits and consumption of said risks is conducted on a recurring basis by the Market Risk and Structural Balance Risk units; these risks are managed in the Global Markets and Financial Management units, respectively.

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- Both the hedging derivatives and the primary positions linked to a Libor rate apply the same migration process, therefore, considering that the changes in the fair value of the transactions, as a result of the change in the reference rate, it has been agreed to be settled in cash, offsetting its effects in the income statement, nor in the list of current hedges.
- The IBOR Reform does not cause changes in the Risk Management strategy, since the migration applies to market reference rates adopted in an orderly manner by market participants; therefore, the change does not involve modification of Risk Management policies or procedures or changes in relevant methodologies: the identified changes that apply for each new rate reference are: construction of the interest rate curves, in the estimate for the change of reference, but also in the discount for the change of collateral from FedFund to SOFR collateral, and in the calibration of the curves since there are Basis FX curves that were market curves and are now iso-forward and vice versa.

Other transition-related disclosures

The meaning of the reference rates and a brief description of the methodologies to determine the calculation of interest are described below:

“SOFR”: The overnight interest rate, in annual terms, called the Secured Overnight Financing Rate published by the Federal Reserve Bank of New York, as the administrator of that indicator (or its successor), on the website of the Federal Reserve Bank of New York, as the administrator of that indicator (or its successor), currently <http://www.newyorkfed.org> or any successor page, at approximately 8:00 a.m., New York time on SOFR Business Days.

“€STR”: With respect to a given TARGET Business Day, the short-term interest rate in Euros denominated “€STR”, administered by the European Central Bank (“ECB”) (or its successor) for that TARGET Business Day, in accordance with the methodology and convention in force at any given time. In accordance with the convention currently in force, the €STR for a given TARGET Business Day is published around 8:00 a.m. (CET) on the immediately following TARGET Business Day. In the event that the ECB makes a new publication of the €STR on the same TARGET Business Day to correct an error in the previous publication, the new published €STR will be used.

With respect to its application in the calculation of interest on transactions, the different union and regulatory working groups have proposed different calculation approaches, depending on the moment in which the interest rate is set in relation to the maturity date of the interest payment.

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Summary: Calculation methodologies

Based on the Backward looking methodology, various interest calculation approaches have been put in place for simple or compound RFPs, depending on when the interest rate is set in relation to the interest payment due date.

Methodology	Description	Convention	Description
In Advance	Average of the rate observed before the interest accrual period begins.	Last Reset	The time considered to calculate the average of the rates is equivalent to the interest accrual period.
		Last Recent	The time considered to calculate the average of the rates is equivalent to a period shorter than the interest accrual period.
In Arrears	Average overnight interest rate during the interest accrual period. To offer counterparties sufficient time to pay interest, a series of conversions are applied to this methodology that allow the payment amount to be known in advance or the payment to be deferred "k" days.	Plain	Uses the daily interest rate during the interest accrual period, paying on the last day of the interest period (day T).
		Payment Delay	Uses the daily interest rate during the interest accrual period, and the payment is made "k" days after the end of the interest accrual period.
		Lockout (or suspension period)	Uses the daily interest rate during the interest accrual period with the last rates set or "locked" "k" days before the end of the period.
		Lockback (Narrowly defined)	During the interest accrual period, the daily interest rate of "k" days prior is used in order to know the average interest rate "k" days prior.
		Lockback Observation shift period	Similar to Lockback (narrowly defined) but maintaining the concordance between the rates and the calendar of the observation period instead of the interest accrual period.
Hybrids Models	Hybrid models are designed to offer borrowers sufficient advance notice of payments, but structuring capital and interest under the In Arrears methodology.	Principal Adjustment	Payment of the period is fixed in advance (in Advance) but the capital and accrued interest are calculated in Arrears, adjusting the difference on the outstanding capital.
		Interest Rollover	Payment of the period is fixed in advance (in Advance) transferring to the next period the interest pending from the calculation in Arrears.

Specifically, in connection with the calculation methodologies for the application of the SOFR, the main references to be applied by the Institution are:

1. SOFR Term

"SOFR Term" is the annual interest rate (CME Term SOFR Reference Rates) with a term equal to the Term of the SOFR Rate, issued based on the Secured Overnight Financing Rate, published two SOFR Business Days prior to the start of the relevant Interest Period by CME Group Benchmark Administration Limited (CBA), as the administrator of that indicator (or its successor), on the CME Group Inc. website, currently <https://www.cmegroup.com/market-data/cme-group-benchmark-administration/term-sofr.html#> or its successor page.

2. SOFR Simple in advance

"SOFR Simple in Advance" for each Interest Period, is the interest rate, in annual terms, resulting from the sum of: (i) the simple arithmetic mean of the published SOFR value, on each SOFR Business Day during a previous period equal to the number of calendar days of the Interest Period and ending two Business Days before the beginning of the Interest Period in question, plus (ii) the Margin.

In the following table contains a list of the methodologies available in the systems within the different segments by type of product.

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Type of Product	Segment	Methodology
Simple Loans	Corporate Banking	SOFR Simple in advance SOFR Term
Simple Loans	SME Banking	SOFR Simple in advance SOFR Term
Simple Loans	Enterprises and Government Banking	SOFR Simple in advance SOFR Term
Simple Loans	Commercial Banking	SOFR Simple in advance SOFR Term
Complex and structured loans	Corporate Banking	SOFR Simple in advance SOFR Compounded in advance SOFR Simple in Arrears Lookback (narrowly defined) SOFR Simple in Arrears Lookback Observation shift period SOFR Compounded in Arrears Lookback (narrowly defined) SOFR Compounded in Arrears Lookback Observation shift period SOFR Term SONIA Simple in advance SONIA Compounded in advance SONIA Simple in Arrears Lookback (narrowly defined) SONIA Simple in Arrears Lookback Observation shift period SONIA Compounded in Arrears Lookback (narrowly defined) SONIA Compounded in Arrears Lookback Observation shift period SONIA Term

(37) Regulatory pronouncements recently issued

I. Regulatory changes in the adoption of FRSs

Pursuant to publications in the Official Gazette of the Federation (for its acronym in Spanish “DOF”) dated December 4, 2020 and December 30, 2021, the Commission announced the obligation, effective January 1, 2022, to adopt the following Mexican FRS issued by the CINIF: B-17 “Fair value measurement”, C-3 “Accounts receivable”, C-9 “Provisions, contingencies and commitments”, C-16 “Impairment of financial instruments receivable”, C-19 “Financial instruments payable”, C-20 “Financial instruments to collect principal and interest”, D-1 “Revenue from contracts with clients”, D-2 “Costs from contracts with clients” and D-5 “Leases”. Also the application of Mexican FRS C-2 “Investment in financial instruments”, Mexican FRS C-10 “Derivative financial instruments and hedging relationships” and Mexican FRS C-14 “Derecognition and transfer of financial assets” replacing accounting criteria B-2 “Investments in securities”, B-5 “Derivatives” and Accounting Criteria to Specific Criteria of the C series. Pursuant to the transitory articles mentioned in the Banking Regulations, and as a practical solution, in the application of the modified accounting criteria in appendix 33 of the Banking Regulations, credit institutions may recognize as the date of initial application, which is, January 1, 2022, the cumulative effect of the accounting changes. Also, the consolidated, quarterly and annual, financial statements required to credit institutions under the Banking Regulations for the period ended December 31, 2022, should not be presented comparative with each quarter of the year 2021 and for the year ended December 31, 2021.

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It is worth mentioning that the DOF issued on September 23, 2021, the resolution that modifies the Banking regulations, published on March 13, 2020, where a provision was granted to continue using during 2022, the contractual interest rate for the accrual of interest on the loan portfolio, as well as the application of the straight-line method for the recognition of origination fees and the accrual of transaction costs, as provided by accounting criteria B-6 in force until December 31, 2021, with such circumstance required to be disclosed in the 2022 quarterly and annual financial statements.

Also, it must apply the “Clarifications to Specific Rules”, which the Regulator considers necessary given the specialized transactions of the financial sector. Identifying, as the most relevant rules, that the loan portfolio should not be included in the scope of Mexican FRS C-20 and shall follow the guidelines and modifications of the new criteria B-6 “Loan portfolio”, the specifications to Mexican FRS C-16 in the scope and determination of the allowance for loan losses and clarifications to Mexican FRS D-5 “Leases”, as specified in section b) of said Note.

- i) Below is a brief description of the Mexican FRS effective on January 1, 2022, which are incorporated into the accounting criteria of the previous amending resolutions, together with the application of the Clarification to Specific Rules of the Accounting Criteria of the regulators and the Accounting Bulletins of particular rules:

Mexican FRS B-17 “Fair value measurement” – FRS B-17 must be applied in determining the fair value. This FRS provides for the valuation and disclosure standards in the determination of the fair value, in its initial and subsequent recognition, if the fair value is required or permitted by other specific FRSs. Where applicable, changes in valuation or disclosure should be recognized prospectively. It defines fair value as the exit price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date. It is mentioned that fair value is a determination based on the market and not on a specific value of an asset or a liability and that when determining fair value, the entity must use assumptions that market participants would use when setting the price of an asset or a liability under current market conditions at a given date, including assumptions about the risk. As a result, the Institution’s intention to hold an asset or liquidate, or otherwise satisfy a liability, is not relevant in the determination of fair value.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

In determining fair value, the following must be considered:

- (a) With respect to the financial instruments referred to in sections I to III of Article 175 Bis 2 of the Banking Regulations, the provisions of this Mexican FRS shall not apply, and the provisions of Parts A and B of Chapter I, Section Two, Title Three, of the Banking Regulations.
- (b) With respect to financial instruments other than those indicated in the preceding paragraph, as well as virtual assets, in addition to the provisions of Part C of Chapter I, Section Two, Title Three, of the Banking Regulations, the provisions of Mexican FRS B-17 must be considered.

Updated prices for valuation determined using internal valuation models cannot be classified as Level 1.

Additionally, the following disclosures are required:

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

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- ii. When the volume or level of activity has decreased significantly, the adjustments that have been applied to the valuation adjusted price must be explained.

With respect to assets or liabilities other than those indicated in the previous sections, Mexican FRS B-17 must be applied when other specific Mexican FRS requires or allows fair value valuations and/or disclosures thereon.

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

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

- Eliminates the concept of intention for the classification of instruments.
- The business model concept is adopted for the classification and measurement of financial instruments as follows:
 - If the business model is to generate a profit through receiving cash flows of a contractual return on financial instruments, they are recognized at amortized cost, and are called financial instruments to collect principal and interest.
 - If the business model is to generate a profit through a contractual return and sell them at the right time, they are recognized at fair value through OCI and are called financial instruments to collect or sell.
 - If the business model is to generate a profit based on their purchase and sale, these instruments are recognized based on their fair value, but through net profit or loss, and are called negotiable financial instruments.
- The reclassification of investments in financial instruments between the categories of financial instruments receivable, financial instruments to collect or sell and negotiable financial instruments is not allowed, unless the entity’s business model changes.
- Adopts the principle that all financial instruments are valued on initial recognition at fair value. Therefore, if there is an acquisition of a financial instrument at a price other than observable market prices, said value must be adjusted to observable market prices immediately.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

- The exception to irrevocably designate, in its initial recognition, a financial instrument to collect or sell to be subsequently valued at fair value with effects on net income referred to in Mexican FRS C-2 will not be applicable to the entities.
- Expected loan losses due to impairment of investments in financial instruments to collect or sell must be determined in accordance with the provisions of Mexican FRS C-16.

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– Reclassifications:

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

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

Mexican FRS C-3 “Accounts receivable” – This FRS will only be applicable to the “other accounts receivable” referred to in paragraph 20.1 of said FRS. The main characteristics issued for this Mexican FRS, are shown below:

- It cancels Bulletin C-3 “Accounts receivable”.
- Specifies that accounts receivable that are based on a contract represent a financial instrument, while some of the other accounts receivable generated by a legal or fiscal provision may have certain characteristics of a financial instrument, such as generating interest, but they are not financial instruments in themselves.
- It states that the allowance for collectability for trade accounts receivable is recognized from the moment in which the income accrues, based on the expected credit losses.
- It states that, since the initial recognition, the value of money over time should be considered, so if the effect of the present value of the account receivable is important in consideration of its term, it should be adjusted based on said present value. The effect of the present value is material when the collection of the account receivable is agreed, totally or partially, for a term greater than one year, since in these cases there is a financing transaction. The accounting changes that arise must be recognized retrospectively; however, the valuation effects can be recognized prospectively.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

For the purposes of Mexican FRS C-3, accounts receivable from transactions that relate to the following should not be included:

- Criteria B-3 “Repurchases”, B-4 “Securities lending” and B-6 “Loan portfolio”, issued by the Commission.
- Those corresponding to acquired collection rights defined in Criterion B-6, and paragraph 72 of this criterion, relating to accounts receivable from operating leases.

This, since the applicable recognition, valuation, presentation and disclosure standards are already contemplated in them.

Transactions between the entity and its agencies and branches

Items resulting from transactions between the entity and its agencies and branches will be cleared at least at the end of each month, so they should not present any balance on that date.

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

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

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

- The provisions of Mexican FRS C-9 will not be applicable in determining the guarantees (*avales*) granted, in which case the provisions of B-8 “Guarantees” will apply.
- Letters of credit.

Letters of credit issued by the entity upon receipt of its amount are subject to Mexican FRS C-9.

The liability arising from the issuance of the letters of credit referred to in the preceding paragraph will be presented in the statement of financial position, under other accounts payable.

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

Mexican FRS C-10 “Derivative financial instruments and hedging relationships” – Its objective is to provide for the valuation, presentation and disclosure standards for the initial and subsequent recognition of derivative financial instruments (DFI) and hedging relationships in the Institution’s financial statements. The main characteristics issued for this Mexican FRS are shown below:

- Alignment of hedging relationships with the risk management strategy that the entity has established and disclosed is required for them to qualify as hedging relationships. If they are not aligned, they are considered not to qualify as such and are not recognized as hedging relationships.
- Specific measures are no longer used to determine whether a hedge is effective, as in the case that periodic or accumulated variations in the fair value of the hedging instrument should be in a ratio between 80% and 125% with respect to the variations in the hedged item. Any ineffectiveness is immediately recognized in net profit or loss.
- It states that, upon designation of one or more hedging relationships, relationships may not be discontinued by Management decision, so long as the hedging relationship is complying with the risk management strategy the entity has established and disclosed. It is only discontinued if the hedging instrument or hedged item ceases to exist or if the risk management strategy changes.
- Rebalancing the hedging ratio is required if there is ineffectiveness, either by increasing or decreasing the hedged item or hedging instrument.
- Separation of embedded derivative financial instruments existing when the host instrument is a financial asset is not permitted, because it is considered that, if the amount of the hybrid contract is to be modified, the modified amount will be charged.

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- It allows to designate a net income and expense position as a hedged item, so long as that designation reflects the entity's risk management strategy.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

In addition to the terms included in Mexican FRS C-10 and defined in the glossary contained in Mexican FRS, the term spot price is defined, and it is specifically mentioned that with respect to foreign currency, the spot price will be the closing exchange rate.

The term credit derivative financial instruments is defined, stating that they are two types:

- (a) Credit Default Derivative Financial Instruments: Contracts in which only the risk of default in financial assets is transferred to the counterparty, such as in credit transactions or in the early amortization of securities.
- (b) Total Return Derivative Financial Instruments: Contracts in which, in addition to exchanging flows of interest or returns inherent to financial assets, such as a credit transaction or the issuance of securities, their market and credit risks are transferred.

Fair value hedge for interest rate risk of a portion of a portfolio made up of financial assets or financial liabilities

In this type of specific hedge, entities are required meet each of the following conditions:

- (a) At the beginning of the hedge there must be a formal designation and sufficient documentation of the hedging relationship, as well as the risk management objectives and strategy of the entity with respect to the hedge.
- (b) The hedge must be highly effective.
- (c) The effectiveness of the hedge must be reliably measurable.
- (d) The hedge must be evaluated continuously (at least quarterly) and must maintain high effectiveness throughout all the periods in which the designation of the hedging relationship is shown in the entity's financial information.

To be recognized in the books, the gain or loss in the hedging of the hedged risk, it can be fulfilled by presenting the adjustment to the carrying value of the item hedged by the gain or loss recognized in the results of the period, either:

- (a) in a separate line within assets of the statement of financial position, during the review periods of the portfolio interests where the hedged item is an asset, or
- (b) in a separate line within liabilities of the statement of financial position, during the review periods of the portfolio interests where the hedged item is a liability.

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The lines of assets or liabilities in the statement of financial position, indicated above, must be amortized in the results of the period. Amortization should begin as soon as the adjustment occurs, but in no event after the hedged item ceases to be adjusted for changes in the fair value attributable to the hedged risk. The adjustment shall be based on the recalculated effective interest rate on the date amortization begins. However, if it is impractical to amortize using the recalculated effective interest rate, the adjustment may be amortized using the straight-line method. The adjustment must be fully amortized on the maturity date of the hedged item in question, or at the end of the interest review period.

In this type of hedge, the entity will comply with the hedging requirements if it observes specific procedures provided for in the clarifications to the specific rules for the application of Mexican FRS C-10 issued by the Commission.

Presentation in the statement of financial position

With respect to structured transactions, the presentation of the portion or portions of the derivative financial instruments will be made separately from that of the main contract, and the presentation guidelines will be followed according to the type or types of financial assets (or non-derivative financial liabilities), as well as derivative financial instruments included in the structured transaction.

With respect to pools of derivative financial instruments listed on a recognized market as a single instrument, said pool will be presented together (that is, without disaggregating each derivative financial instrument individually), in the category of derivative financial instruments (debtor balance), or derivative financial instruments (creditor balance), in the statement of financial position.

With respect to pools of derivative financial instruments not listed on any recognized market, their presentation in the statement of financial position of the entities will follow the guidelines for each derivative financial instrument individually, in the category of derivative financial instruments (debit balance), or derivative financial instruments (credit balance), as appropriate.

In a fair value hedge for interest rate risk of a portion of a portfolio made up of financial assets or financial liabilities (and only in this specific type of hedge), the adjustment to the carrying value of the item hedged by the gain or loss recognized in the results of the period, will be presented under valuation adjustments for financial assets hedging, or valuation adjustments for financial liabilities hedging, as the case may be, immediately after the relevant financial assets or financial liabilities.

Presentation in the statement of comprehensive income

In a fair value hedge for interest rate risk of a portion of a portfolio made up of financial assets or financial liabilities (and only in this specific type of hedge), the result from the valuation of the hedged item attributable to the hedged risk must be presented, if identifiable, where the result by valuation of each one of the hedged items is presented. If not identifiable, said valuation effect must be presented in the item where the valuation result of the most relevant hedged item is presented in accordance with the provisions of the applicable accounting criteria (for example, if the portfolio of financial assets corresponds mostly to investments in securities, the valuation effect must be presented in "Financial Intermediation Income"). The initial impact due to the entry into force of this standard mainly represents effects of presentation and disclosure of information in the financial statements.

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Mexican FRS C-13 “Related parties” – Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

For purposes of complying with the disclosure standards contained in Mexican FRS C-13, entities must additionally consider as related party:

- (a) the members of the board of directors of the holding company or financial entities and companies that are members of the Institution to which, if applicable, it belongs;
- (b) persons other than key management personnel or relevant executives or employees who, with their signature, may bind the entity;
- (c) legal entities in which key management personnel or relevant executives of the entity are directors or administrators or hold any of the first three hierarchical levels in said legal entities, and
- (d) legal entities in which any of the persons indicated in the preceding paragraphs, as well as in Mexican FRS C-13, have power of command, this being understood as the *de facto* capacity to decisively influence the resolutions adopted at shareholders’ meetings or meetings of the board of directors or by the management, conduct and execute the business of the entity in question or of the legal entities it controls.

In addition to the disclosures required by Mexican FRS C-13, entities must disclose, in aggregate form, through notes to the financial statements, information of any transactions between related parties, including:

- (a) A generic description of the transactions, such as:
 - loans made or received,
 - transactions with financial instruments where the issuer and holder are related parties,
 - repurchases or resales,
 - securities lending,
 - derivative financial instruments,
 - hedging transactions,
 - sale and acquisition of loan portfolio, and
 - those carried out through any person, trust, entity or other, when the counterparty and source of payment of said transactions depend on a related party;
- (b) any other information necessary to fully understand the transaction, and
- (c) the full amount of employee benefits provided to key management personnel or relevant executives of the entity.

Disclosure is only required for transactions with related parties that represent more than 1% of the net capital of the month prior to the date of preparation of the relevant financial information. The net capital will be determined in accordance with the capital requirements in the Banking Regulations.

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

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Mexican FRS C-14 “Derecognition and transfer of financial assets” – The main change in this standard related to the principle of transfer of risks and benefits of ownership of the financial asset, as a fundamental condition for derecognizing it. This means that when commercial, industrial and service entities discount accounts or documents receivable with recourse, they may not present the amount of the discount as a credit to the accounts and documents receivable, but rather as a liability. Similarly, financial entities may not derecognize the financial asset with a mere transfer of control over the asset.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

- With respect to the collateral received referred to in paragraph 44.7 of Mexican FRS C-14, the receiver is required to recognize the collateral received in memorandum accounts. In cases where the receiver has the right to sell or pledge the collateral, the transferor must reclassify the asset in its statement of financial position, presenting it as restricted.

Recognition of financial assets

Recognition rules exist for the receiving entity in cases where the transfer results in a derecognition of the financial asset by the transferor.

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

Mexican FRS C-16 “Impairment of financial instruments receivable” – It states that, to determine the recognition of the expected loss, the historical experience of the credit loss entity, the current conditions and the reasonable and sustainable forecasts of the different quantifiable future events that could affect the amount of future cash flows to be recovered from financial instruments receivable (IFC) must be considered.

It also indicates that the expected loss should be recognized when, as the credit risk has increased, it is concluded that part of the financial instruments receivable’s future cash flows will not be recovered.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

- For the purposes of Mexican FRS C-16, assets derived from transactions referred to in B-6, issued by the Commission, should not be included, since the standards for the valuation, presentation and disclosure of such assets are contemplated in the aforementioned criterion.
- Allowance for expected loan losses. It states that for accounts receivable other than a credit portfolio, allowances must be established that reflect the degree of irrecoverability in accordance with Mexican FRS C-16.
- Overdrafts in checking accounts of the entity’s customers, who do not have a line of credit for such purposes, will be classified as past due debts and the entities are required to establish, simultaneously with said classification, an allowance for the full amount of said overdraft, at the time such an event occurs.

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- Regarding transactions with uncollected documents for immediate collection referred to in B-1 “Cash and cash equivalents”, 15 calendar days following the date on which they have been transferred to the item that originated them, they will be classified as past due debts and their allowance must be established simultaneously for the full amount thereof.
- The collection rights acquired by the entity that relate to the events mentioned in paragraph 23 of B-6 must be considered financial instruments receivable with high credit risk (stage 3), and may not be subsequently transferred to another stage.
- For purposes of determining the amount of the expected credit loss referred to in paragraph 45.1.1 of Mexican FRS C-16, the effective interest rate used to determine the present value of the cash flows to be recovered must be adjusted when it is decided to modify said rate in accordance with the provisions of paragraph 61 of this criterion. When the entity uses the practical solutions referred to in paragraph 42.6 of Mexican FRS C-16, the creation of allowances shall be for the full amount of the debt and shall not exceed the following terms:
 - (a) 60 calendar days after their initial registration, when they relate to unidentified debtors, and
 - (b) 90 calendar days after their initial registration, when they relate to identified debtors,
 - (c) no allowance for expected loan losses will be created for:
 - balances for taxes payable, and
 - creditable value added tax.

Expected loan losses due to the impairment of investments in financial instruments as indicated in section 45 of Mexican FRS C-2 must be determined in accordance with the provisions of Mexican FRS C-16. In this regard, although the Commission does not establish specific methodologies for their determination, it would be expected that the expected loan losses due to the impairment of securities issued by a counterparty are consistent with the impairment determined for loans made to the same counterparty.

With respect to the determination of the estimated impact on the Financial Statements on the transition date, the Institution will apply the rating methodologies to make up the amount of reserves of financial assets under Bulletin B-6 “Loan Portfolio” and the guidelines for the Banking Regulations applicable as of January 1, 2022, as follows:

- (a) Internal Reserve Methodologies based on Mexican FRS C-16 for all the relevant Modelable Portfolios: Credit Card, Enterprises, Large Enterprises, Mortgages, Non-Revolving Consumer, and Small and Medium-Size Enterprises, both for the portfolios that are authorized and those in the process of authorization for the use of a Model based on internal ratings for the capital requirement; with a prior notice to the Commission and once said regulator authorized the implementation plan in January 2022, with the commitment that said methodologies be adopted effective January of 2022; and
- (b) General Standard Methodology contained in Chapter V Bis of Title Two of the Banking Regulations, for loans belonging to portfolios not included in the relevant Modelable Portfolios, such as portfolios of: Financial Institutions, States and Municipalities, Promoters and Investment Projects.

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For the recognition of the transition effect and in accordance with the Resolution amending the General regulations applicable to Credit Institutions published in the Official Gazette of the Federation on Friday, December 4, 2020, Management chose to make the recognition in the stockholders' equity, within the result of previous years, as of January 31, 2022. Management recognized the initial cumulative effect of the entry into force of this standard in an amount of \$5,408 net of deferred PTU and ISR, with a charge in the results of previous years and a credit to the allowance for loan losses. The initial cumulative financial effect should be understood as the difference resulting from subtracting on the same date the reserves that must be created, applying the methodologies in force as of January 1, 2022, minus the reserves that would be held for the balance of said portfolio, with the methodologies in force until December 31, 2021.

Regarding the determination of the impairment applicable to investments in financial instruments as indicated in section 45 of Mexican FRS C-2, the Management has determined the loan losses in accordance with the provisions of Mexican FRS C-16 and is consistent with the loan portfolio rating methodology. Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

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

- Provides for the possibility of valuing certain financial liabilities at fair value, upon satisfaction of certain conditions, after their initial recognition.
- Value long-term liabilities at their present value at initial recognition.
- When restructuring a liability, without substantially modifying the future cash flows to settle the same, the costs and commissions paid in this process will affect the amount of the liability and be amortized over a modified effective interest rate, instead of affecting directly the net profit or loss.
- Incorporates the provisions of IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”, a topic not included in the existing regulations.
- The effect of extinguishing a financial liability must be presented as a financial result in the statement of comprehensive income.
- Introduces the concepts of amortized cost to value the financial liabilities and the effective interest method, based on the effective interest rate.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

- For the purposes of Mexican FRS C-19, the liabilities related to the transactions referred to in B-3 and B-4 are not included, as they are already contemplated in said criteria.
- Initial recognition of a financial instrument payable.

The provisions of paragraph 41.1.1, number 4, of Mexican FRS C-19 will not apply regarding the use of the market rate as the effective interest rate in the valuation of the financial instrument payable when both

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rates are substantially different.

- Financial instruments payable valued at fair value.

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

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

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

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

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

- For the purposes of Mexican FRS C-20, the assets originated by the transactions referred to in B-6, issued by the Commission, should not be included, since the recognition, valuation, presentation and disclosure standards for the initial and subsequent recognition of such assets are already contemplated in said criterion.
- Initial recognition of a financial instrument to collect principal and interest. The provisions of paragraph 41.1.1 number 4 of Mexican FRS C-20 will not apply regarding the use of the market rate as the effective interest rate in the valuation of the financial instrument to collect principal and interest when both rates are substantially different.
- Collection rights. For purposes of recognizing the effective interest, the effective interest rate of the collection rights may be adjusted periodically to recognize the variations in the estimated cash flows to be received.
- Fair Value Option. The option to irrevocably designate in its initial recognition a financial instrument to collect principal and interest, to be subsequently valued at fair value with effects on the net result referred to in paragraph 41.3.4 of the Mexican FRS C-20, will not be applicable.
- Loans to officers and employees. The interest originated from loans to officials and employees will be presented in the statement of comprehensive income under other income (expenses) of the transaction.

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

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

Mexican FRS D-4 “Income Tax” – Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

Regarding the disclosure required under Mexican FRS D-4 of temporary differences, those differences related to the financial margin and the main transactions of the entities must also be disclosed.

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

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

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

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

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

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

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

- Eliminates the classification of leases as operative or capitalizable for a lessee, and the latter must recognize a lease liability to the present value of the payments and an asset for the right of use for that same amount, of all the leases with a duration greater than 12 months, unless the underlying asset is of low value.

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- An expense is recognized for depreciation or amortization of assets for right of use and an interest expense on lease liabilities.
- It modifies the presentation of the related cash flows since the cash flow outflows of the operating activities are reduced, with an increase in the outflows of cash flows from the financing activities.
- Modifies the recognition of the gain or loss when a seller-lessee transfers an asset to another entity and leases that asset back.
- The accounting recognition by the lessor does not change in relation to the previous Bulletin D-5, and only some disclosure requirements are added.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

Finance leases

The provisions of this Mexican FRS will not be applicable to loans made by the entity for finance lease transactions, subject manner of B-6, with the exception of the provisions of paragraph 67 of B-6.

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

Operating leases

Accounting for lessor

In the amount of amortizations that have not been settled within a period of 30 calendar days following the due date of the payment, lessor must create the relevant allowance, suspending the accumulation of income, including control thereof in memorandum accounts under “Other registration accounts”.

Lessor must present in the statement of financial position the account receivable under “Other registration accounts”, and the rental income under “Other income (expenses)” of the transaction in the statement of comprehensive income.

Regarding the estimated impact on the Financial Statements on the transition date, the Institution has chosen to apply the provisions of Article Transitory Eight of the Resolutions (DOF, December 4, 2020), which consists of recognizing lease liabilities in an amount equal at the current value of the future payments committed as of January 1, 2022. With respect to the asset, it has been decided to record right-of-use assets in an amount equal to the lease liabilities. As a result, the Institution has determined that the initial impact and recognized right-of-use assets and lease liabilities is an approximate amount of \$4,227, mainly from the branch network premises.

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The initial impact disclosed in this note is undergoing a process of calibration and is subject to modifications until the Institution presents its first financial statements of 2022 that include the definitive impact at the date of initial application.

- ii) The main amendments to the Standards regarding recognition, valuation, presentation and disclosure applicable to specific items of the financial statements are detailed below:

A. B-1 “Cash and cash equivalents”

It states to include within this item of the financial statements the “cash equivalents”, which are short-term, highly liquid securities, easily convertible into cash, subject to immaterial risks of changes in their value and held to meet short-term commitments other than for investment purposes; they can be denominated in Mexican or foreign currency; for example, interbank loan transactions agreed for a term of less than or equal to three business days, the purchase of foreign currency that are not considered derivative financial instruments as provided by the Central Bank in the applicable regulation, as well as other cash equivalents such as correspondents, documents of immediate collection, precious metals and highly liquid financial instruments.

Highly liquid financial instruments are securities the disposal of which is expected within a maximum of 48 hours from their acquisition, generate returns and have immaterial risks of changes in value.

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

B. B-4 “Repurchase/resale transactions”

It states that for purposes of offsetting financial assets and liabilities, with the entity acting as buyer, the provisions of Mexican FRS B-12 “Offsetting financial assets and financial liabilities” must be followed.

It requires disclosing the rates agreed in the relevant transactions.

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

C. B-6 “Loan portfolio”

The main amendments to B-6 are as follows

- Definitions. New accounting definitions are included to ensure the incorporation of international accounting criteria, such as: Portfolio with stage 1, 2 and 3 credit risk, amortized cost, transaction costs, effective interest rate, effective interest method.
- Standards of recognition and valuation:

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Business Model:

- In determining the business model (BM) used by the Entity to administer and manage the loan portfolio and whether contractual cash flows will be obtained from the flows, from the sale of the loan portfolio, or both. It states that the BM is a question of facts and not of an intention or affirmation.
- It states that the loan portfolio must be recognized under B-6 if the objective of the BM is to keep it to collect the contractual cash flows and the terms of the contract provide for cash flows on pre-established dates that correspond only to payments of principal and interest on the principal amount outstanding. That if this is not fulfilled, it must be dealt with in accordance with the provisions of Mexican FRS C-2, "Investment in financial instruments".
- It provides for the criteria to identify the considerations to determine the realization of the contractual cash flows of the loan portfolio, either through collection or sale. Although it states that sales do not determine the BM, it clarifies that a historical analysis of past sales and expectations of future sales must be conducted.
- It states that the BM 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 sales are made of the high risk portfolio. In determining the business model (BM) used by the Entity to administer and manage the loan portfolio and whether the payments will come from contractual cash flows, from the sale of the loan portfolio, or from both. It states that the BM is a question of facts and not of an intention or affirmation.

Initial recognition:

- It states that the balance in the loan portfolio will be the amount effectively granted to the borrower and will be recorded separately from the transaction costs, as well as the items collected and defined in the bulletin, which will be recognized as a charge or deferred credit, as appropriate, and amortized against the results of the year during the life of the loan, according to the effective interest rate.
- It provides for the mechanism for determining and recording the effective interest rate.
- Regarding reclassifications of the loan portfolio measured at amortized cost, it will be allowed if the BM is changed. It indicates that these changes must be infrequent and determined by the highest authority of the entity. The modification of the BM must be communicated to the Commission (within 10 business days following its determination) and must be registered prospectively without modifying previously recognized results.

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Subsequent recognition:

- It states that the loan portfolio must be valued at its amortized cost, which includes increases due to effective interest accrued, decreases due to the amortization of transaction costs and items collected in advance, as well as decreases due to collections of principal and interest and for the allowance for loan losses.
- It states that the commissions recognized after the making of the loan, as part of the maintenance of said loans, and those of loans that have not been placed, will be recognized against the results of the year on the date they are accrued.

Loan portfolio renegotiations:

- It states that, if an Entity restructures a loan with credit risk stages 1 and 2, or partially liquidates it through a renewal, it must determine the profit or loss in the renegotiation as follows:
 - a) It determines the carrying value of the loan without considering the allowance of loan losses;
 - b) It determines the new future cash flows on the restructured or partially renewed amount, discounted at the original effective interest rate, and
 - c) It recognizes the difference between the carrying value and the cash flows determined in subparagraph b) above as a deferred charge or credit against the profit or loss from loan portfolio renegotiation in the statement of comprehensive income.

Other considerations:

- It establishes that the unpaid balance of loans denominated in VSMS or UMAs will be valued based on the relevant minimum wage or UMAs in accordance with A-3 "Application of general rules", recognizing the adjustment for the increase as part of the cost amortized against the results of the year.

It provides for the categorization of the loan portfolio by level of credit risk:

- Portfolio with stage 1 credit risk

Loans made and acquired by the entity will be recognized in this category, as long as they do not meet the categorization criteria referred to in the sections Transfer to loan portfolio with stage 2 credit risk and Transfer to loan portfolio with stage 3 credit risk.

Loans that meet the conditions to be considered stage 2 credit risk may remain in stage 1 when compliance with the requirements contained in the Banking Regulations is proven, which must be duly documented in the risk policies.
- Transfer to loan portfolio with stage 2 credit risk

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Loans must be recognized as a loan portfolio with stage 2 credit risk, in accordance with the provisions of the Banking Regulations, with the exception of the loans described in the paragraph corresponding to the guidelines for applying the registration of Transfer to loan portfolio with stage 3 credit risk.

- Transfer to loan portfolio with stage 3 credit risk

The unpaid balance in accordance with the payment conditions in the loan agreement must be recognized as a loan portfolio with stage 3 credit risk, as provided in paragraph 91. It is worth mentioning that the revolving consumer portfolio product is modified to remain in this stage when it maintains 90 days of past due payments. (3 months).

Renegotiations:

- It specifies that 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 as a result of 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.
- It states that after a second restructuring or renewal 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.
- It states that loans that, due to a restructuring or renewal, are transferred to a category with higher credit risk must remain in said stage for a minimum of three months to prove sustained payment and, consequently, be transferred to the immediately following stage with lower credit risk.

Sale of loan portfolio:

- For loan portfolio sale transactions in which the conditions to write-off a financial asset under Mexican FRS C-14 "Derecognition and transfer of financial assets" are not met, the entity must keep in the asset the amount of the loan sold and recognize in liabilities the amount of funds from the recipient.
- In the events in which a loan portfolio sale is carried out, where the conditions for derecognizing a financial asset under the Mexican FRS C-14 are met, the allowance associated with it must be cancelled.

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Regarding the determination of the impact on the Financial Statements on the transition date, Management has completed the implementation of this criterion and the results obtained are described below:

- It turned out that the Amortized Cost Business Model corresponds to the administration and management of almost the entire loan portfolio. Also, it complies with the evaluation if the contractual flows correspond only to payments of principal and interest in order to maintain it until maturity.
- In the statement of financial position, the loan portfolio with credit risk in stages 1, 2 and 3 has been presented. The design and implementation of the criteria for transferring a portfolio with a credit risk in stages has been based in the guidelines of B-6 and in the criteria contained in the Regulations referring to the application of methodologies for portfolios with internal model and the standard methodology. Given these amendments, for the credit card product, its transfer between stages of degree of risk has been homologated, like the rest of the portfolios.
- On the other hand, it is necessary to comment that Management opted for the facility issued by the regulator, as indicated in the second paragraph of this Note, so that the Institution during 2022 can continue to use the contractual interest rate for the accrual of the interest of the loan portfolio, as well as the application of the straight-line method for the recognition of origination fees and the accrual of transaction costs, as provided in accounting criteria B-6 in force until December 31, 2021, disclosing such circumstance in the quarterly and annual financial statements for said fiscal year. This situation that has already been notified to the authority.

D. B-7 “Foreclosed assets”

The main modifications of this criterion are as follows:

- It states that the recognition value of foreclosed assets will be the lower of the gross carrying value of the portfolio and the net realizable value of the assets received, when the entity’s intention is to sell said assets to recover the amount receivable. On the other hand, two new definitions are added, the net realizable value and disposal costs.
- It states that on the date of registration of foreclosed asset, the value of the asset and the allowance created must be removed from the statement of financial position in the total amount of the net asset and deducting the partial payments in kind according to criterion B-6 “Loan portfolio” and the differential must be recognized in the results of the year as other income (expenses) of the transaction.

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

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iii) The main amendments to the Standards that entities must apply are detailed below:

- A. Restricted assets. The margin accounts that entities give to the clearinghouse under transactions with derivative financial instruments carried out in recognized markets or exchanges must adhere to the provisions of Mexican FRS C-10 “Derivative financial instruments and hedging relationships”.
- B. Clearing accounts. Assets and liabilities transactions carried out by entities, for example, in matters of investments in financial instruments, repurchase/resale agreements, securities lending, virtual assets and derivative financial instruments, once they reach their maturity and as long as the settlement is not received or delivered, as agreed in the respective contract, the amount of past due transactions receivable or payable must be recorded in clearing accounts (debtors or creditors in the settlement of transactions).

Also, in transactions where immediate settlement or same-day value date is not agreed, including foreign currency trading, on the contract date, the amount receivable or payable must be recorded in clearing accounts, until settlement takes place. The allowance for expected loan losses relating to the aforementioned amounts receivable must be determined in accordance with Mexican FRS C-16 “Impairment of financial instruments receivable”.

For purposes of presenting the financial statements, clearing accounts will be presented under other accounts receivable (net) or other accounts payable, as appropriate. The balance of the debtor and creditor clearing accounts may be offset in accordance with the compensation rules provided for in Mexican FRS B-12 “Offsetting financial assets and financial liabilities”.

Regarding the transactions referred to in paragraph 11, the balance receivable or payable must be disclosed, for each type of transaction from which they originate (currency, investments in financial instruments, repurchase/resale agreements, virtual assets, etc.), specifying that these are agreed transactions where settlement is pending.

- C. Disclosures related to fair value determination. The entities with respect to the Valuation Adjusted Price that is provided by the price provider in determining the fair value under Section Two, Chapter I, of Title Three of the Banking Regulations, in addition to the accounting criteria or the relevant Mexican FRSs, they are required to disclose, at least, the following:
 - (a) The level of the valuation adjusted price hierarchy (or fair value hierarchy) within which fair value measurements are classified, in accordance with the following:
 - i. Level 1, the highest level, relating to prices obtained exclusively with Level 1 input data.
 - ii. Level 2, prices obtained with Level 1 input data.
 - iii. Level 3, the lowest level, for prices obtained with Level 3 input data.

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- (b) If there is any change in the valuation model, that change and the reasons for making it must be disclosed.
- (c) When there are changes from one period to another in the classification of the valuation adjusted price hierarchy with respect to the same security or financial instrument:
 - i. The amounts of the transfers between Level 1 and Level 2 of the valuation adjusted price hierarchy.
 - ii. The amounts of transfers to or from Level 3 of the valuation adjusted price hierarchy.
- (d) For valuation adjusted price classified in Level 3:
 - i. A reconciliation of opening balances to closing balances, separately disclosing changes during the period attributable to total gains or losses for the period recognized in net income and those recognized in Other Comprehensive Income (OCI).
- (e) When there is a significant decrease in the volume or level of activity in relation to normal market activity for a certain security or financial instrument, or in the event of disorderly conditions, the adjustments that have been applied to the valuation adjusted price must be explained.
- (f) The name of the price provider that which, if any, has provided the valuation adjusted price or the input data for its determination through internal valuation models.

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

II Improvements to 2022 Mexican FRS

In September 2021, the CINIF issued the document called "Improvements to 2022 Mexican FRS", which contains specific amendments to some existing Mexican FRSs. The main improvements that generate accounting changes are as follows.

Mexican FRS B-7 "Business acquisitions" - It includes within its scope the accounting recognition of acquisitions of businesses under common control. It provides for the book value method to recognize business acquisitions between entities under common control. It requires the application of the purchase method in combinations of entities under common control when the acquiring entity has non-controlling shareholders whose shares are affected by the acquisition or when the acquiring entity is listed on a stock exchange. It makes annotations to the accounting treatment and recognition of costs and expenses related to the business combination. This improvement comes into force for the exercises that start January 1, 2022, allowing early application for the year 2021. The accounting changes that arise must be recognized prospectively as provided by Mexican FRS B-1 "Accounting changes and corrections of errors".

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Mexican FRS B-15 “Foreign currency conversion” - This improvement consists of incorporating within the FRS the practical solution for the preparation of complete financial statements for legal and tax purposes when the recording and reporting currency is the same, even when both are different from the functional currency, without carrying out the conversion to the functional currency, indicating the entities that can opt for this solution. This improvement repeals the Interpretation to FRS 15 “Financial statements the reporting currency of which is the same as the recording currency, but different from the functional currency” and comes into effect for the years beginning on or after January 1, 2022, allowing early application for the year 2021. The accounting changes that arise must be recognized prospectively as provided in FRS B-1 “Accounting changes and error corrections”.

Mexican FRS “Benefits to employee” - It considers the effects on the determination of the deferred Employee Profit Sharing (Profit Sharing) derived from the changes in the determination of the Profit Sharing incurred by the decree published on April 23, 2021 by the Federal Government. This improvement comes into force for the years that start on January 1, 2022, allowing early application for the year 2021. The accounting changes that arise must be recognized prospectively as provided in FRS B-1 “Accounting changes and error corrections”.

Mexican FRS B-1 “Accounting changes and error corrections” - It eliminates the requirement to disclose *pro forma* information when there is a change in the structure of the economic entity. This improvement comes into force for the years that start on January 1, 2022, allowing early application for the year 2021. The accounting changes that arise must be recognized prospectively as provided in FRS B-1 “Accounting changes and error corrections”.

Mexican FRS B-10 “Effects of inflation” - It modifies the disclosure requirement when the entity operates in a non-inflationary economic environment to limit them to being made when the entity considers it relevant. This improvement comes into force for the years that start on January 1, 2022, allowing early application for the year 2021. The accounting changes that arise must be recognized prospectively as provided in FRS B-1 “Accounting changes and error corrections”.

Mexican FRS B-17 “Fair value measurement” – It eliminates the requirement of disclosures for changes in an accounting estimate derived from a change in a valuation technique or in its application. This improvement comes into force for the years that start on January 1, 2022, allowing early application for the year 2021. The accounting changes that arise must be recognized prospectively as provided in FRS B-1 “Accounting changes and error corrections”.

Mexican FRS C-6 “Property, plant and equipment” – It eliminates the requirement to disclose the planned time for construction in progress, when there are approved plans for it. This improvement comes into force for the years that start on January 1, 2022, allowing early application for the year 2021. The accounting changes that arise must be recognized prospectively as provided in FRS B-1 “Accounting changes and error corrections”.

Management estimates that the effects of adopting the improvements to the FRS shall not be material for the consolidated financial statements as a whole.

