Grupo Financiero BBVA México, S.A., and Subsidiaries

Consolidated Financial Statements

December 31, 2022
with independent auditor's report
(Translation from Spanish language (original))

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of
Grupo Financiero BBVA México, S.A. de C.V.
(Subsidiarie of Banco Bilbao Vizcaya Argentaria, S.A.)

Opinion

We have audited the accompanying consolidated financial statements of Grupo Financiero BBVA México, S.A. de C.V. and its subsidiaries which comprise the consolidated statement of financial position as of December 31, 2022, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of Grupo Financiero BBVA México, S.A. de C.V. and its subsidiaries (hereinafter, the "Group") for the year then ended of December 31, 2022, have been prepared in all material aspects in accordance with the accounting criteria for Financial Group Holding Companies (hereinafter, the "Accounting Criteria") established by the National Banking and Securities Commission (hereinafter, the "Commission" or "CNBV").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico in accordance with the Código de Ética Profesional del Instituto Mexicano de Contadores Públicos (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were 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 provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the accompanying consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Allowance for loan losses

Description and why matter is of most significance

We have considered the allowance for loan losses of the loan portfolio as a key audit matter, since its determination involves significant judgments by the Management as well as the use of the various factors established in the Group's internal methodology approved by the Commission and the standard methodology defined by the CNBV for loan portfolio rating processes, which requires the involvement of independent specialists from the Group's Management and internal auditor valuation specialists, such as the allocation of the collateral, guarantor's rating, assignment of "rating" for null values and impairment flag in applicable cases. Likewise, it is considered the reliability of the documentation and the updating of the information that serves as input for the calculation of said estimate, which amounts to $49,588 million pesos.

In notes 3n) and 12 of the accompanying consolidated financial statements as of December 31, 2022, the disclosures on the accounting policy for recognition and analysis of allowance of loan losses are included, respectively.

How our audit addressed the key audit matter

Our audit procedures include, among others, the understanding of the key processes and control environment established by the Group, in the process of determining the allowance of loan losses of the loan portfolio, as well as the execution of design and operational effectiveness tests of the key controls implemented by the Group's Management.

Additionally, we assessed the key quantitative and qualitative factors used by the Group's Management to determine the allowance of loan losses of the loan portfolio, considering the items related to debtors during the loan portfolio rating process in accordance with the accounting methodologies and criteria established by the CNBV.

We also involved our valuation specialists to assist us in evaluating the reasonableness of Management's judgments regarding the allowance of loan losses evaluation of the loan portfolio, based on a representative sample.

Finally, we assessed the adequacy of the disclosures related to determining the allowance of loan losses of the loan portfolio, which was obtained in the accompanying consolidated financial statements as of December 31, 2022.

Technical reserves and reinsurance recoverable amounts

Description and why matter is of most significance

As described in note 3ac to the accompanying consolidated financial statements the Group has significant liabilities for insurance contracts (called "technical reserves"), which represent 11% of the total liability shown in the consolidated financial statements as of 31 December 2022. Consistent with the regulation of the insurance industry established by the National Insurance and Bonding Commission (hereinafter CNFS), the Group uses valuation models to determine these liabilities for insurance contracts and the amounts recoverable from reinsurance that they are relative to them. We consider a key audit issue in this area due to the complexity of the valuation models and the use of assumptions to determine technical reserves, such as discount rates, mortality, morbidity, portfolio performance, expenses, etc., which require a high level of judgment from the Management for their determination.

How our audit addressed the key audit matter

As part of the procedures, independent calculations were made on the amounts of the reserves and the reinsurance recoverable amounts; the methodologies used by the Group were assessed considering their adherence to the applicable CNSF regulation.

We tested the data used in the models applied by the Group to calculate the reserves and assessed the adequacy of such data. We involve our actuarial specialists in assessing the reserves of life operations and damage operations.

Finally, we assessed the adequacy of the disclosures related to the determination of the technical reserves, which were made in the accompanying consolidated financial statements as of December 31, 2022.

Emphasis of matter - Adoption of new accounting criteria and their effects on comparability

Without qualifying our opinion, we draw attention to Note 3d in the accompanying consolidated financial statements, in which the Group describes the adoption of the new accounting criteria published by the Commission through a resolution that modifies the General Provisions applicable to the holding companies of financial groups in Mexico (the Provisions) that became effective on January 1, 2022. The Provisions establish that the basic annual financial statements and accompanying notes as of December 31, 2022, and for the year ended on that date must not present comparative information in respect to the consolidated financial statements as of December 31, 2021, and for the year ended on that date.

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

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with the Accounting Criteria, 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that that complies, in all material aspects, with the accounting regulatory framework indicated in the second paragraph of this report.

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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report, is who signs it.

Mancera, S.C.
Member of
Ernst & Young Global Limited

SIGNATURE

C.P.C. Gabriel Alejandro Baroccio Pompa

Mexico City, Mexico,
February 27, 2023

Grupo Financiero BBVA México, S. A. de C. V. and Subsidiaries
Av. Paseo de la Reforma 510, Col. Juárez, Ciudad de México, México

Consolidated statement of financial position
As of December 31, 2022
(MXN millions)

Assets	
Cash and cash equivalents (note 5)	$ 275,971
Margin accounts (derivative financial instruments) (note 6)	9,836
Investments in financial instruments (note 7):	
Negotiable financial instruments	371,061
Financial instruments to collect or sell	226,135
Financial instruments to collect principal and interest (Securities) (net)	234,667
	831,863
Debtors on repurchases/resales (note 8)	35,079
Derivative financial instruments (note 9):	
Trading	209,518
Hedging	6,658
	216,176
Valuation adjustments related to financial assets hedged	(639)
Loan portfolio with Stage 1 credit risk:	
Commercial	809,063
Consumer	346,721
Mortgage	293,570
Total loan portfolio with stage 1 credit risk	1,449,354
Loan portfolio with Stage 2 credit risk:	
Commercial	18,831
Consumer	8,616
Mortgage	10,428
Total loan portfolio with stage 2 credit risk	37,875
Loan portfolio with stage 3 credit risk:	
Commercial	7,662
Consumer	9,363
Mortgage	6,823
Total loan portfolio with stage 3 credit risk	23,848
Loan portfolio measured at fair value	5,100
Loan portfolio	1,516,177
(+/-) Deferred items	(3,271)
(-) Less:	
Allowance for loan losses (note 12)	(49,588)
Loan portfolio (net)	1,463,318
Loan portfolio of insurance and bonding institutions	3,132
(-) Less:	
Allowance for loan losses of Insurance and Bonding Institutions	(151)
Loan portfolio of Insurance and Bonding Institutions (net)	2,981
Acquired collection rights (net)	1
Total loan portfolio (net) (net 10)	1,466,300
Accounts receivable from insurance and bonding companies (note 13)	11,582
Reinsurance and rebonding recoverable amounts (net)	1,279
Other accounts receivable (net) (note 15)	139,135
Foreclosed assets (net) (note 16)	1,611
Prepayments and other assets (net)	3,712
Property, plant and equipment (net) (note 17)	36,347
Assets from rights of use of property, plant and equipment (net) (note 18)	5,023
Permanent investments (note 19)	1,376
Deferred income tax assets (net) (note 28)	39,748
Intangible assets (net) (note 21)	4,699
Goodwill (note 21)	8,869
Total assets	$ 3,087,967

Liabilities and stockholders' equity	
Deposits (note 22):	
Demand deposits	$ 1,366,059
Time deposits:	
General public	239,165
Money market	4,110
Securities issued	88,819
Global deposit account without transactions	6,716
	1,704,869
Bank and other borrowings (note 23):	
Short term	6,528
Long term	32,634
	39,162
Technical reserves (note 24)	307,381
Creditors on repurchase/resale (note 8)	172,117
Securities lending	2
Collateral sold or pledged (note 8):	
Repurchase/resale (creditor balance)	15,379
Securities lending	39,430
	54,809
Derivative financial instruments (note 9):	
Trading	232,352
Hedging	8,820
	241,172
Valuation adjustments to financial liabilities hedged	(4,771)
Accounts payable to reinsurers and bonding agents (net)	1,188
Lease liabilities	5,153
Other accounts payable:	
Creditors due to settlement of transactions	13,894
Creditors on margin accounts	342
Creditors on cash received as collateral (note 9)	13,438
Tax payable	4,422
Sundry creditors & other accounts payable (note 20)	128,904
	161,000
Financial instruments qualifying as liabilities:	
Subordinated obligations outstanding (note 26)	38,623
Income tax liability	15,162
Liabilities for employee benefits (note 25)	7,149
Deferred credits and prepayments	5,359
Total liabilities	2,748,375
Stockholders' equity (note 29):	
Paid-in capital:	
Capital stock	9,799
Additional paid-in capital	79,333
	89,132
Earned capital:	
Capital reserves	204
Cumulative results	265,457
Other comprehensive income:	
Valuation of financial instruments to collect or sell	(9,190)
Valuation of derivative financial instruments for cash flow hedges	(1,353)
Remeasurements of defined employee benefits	(4,738)
	(15,281)
	250,380
Total controlling interest	339,512
Total non-controlling interest	80
Total stockholders' equity	339,592
Total liabilities and stockholders' equity	$ 3,087,967

(Continued)

Grupo Financiero BBVA México, S. A. de C. V. and Subsidiaries

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

Consolidated statement of financial position

As of December 31, 2022

(MXN millions)

Memorandum accounts

Transactions on behalf of third parties

Current client account:		
Client banks	$	333
Settlement of client transactions		157
		490
Custody transactions:		
Financial instruments (securities) of clients received in custody		1,834,802
Transactions on behalf of clients:		
Clients' repurchase/resale transactions		75
Securities lending on behalf of clients		-
Collateral received on behalf of clients		75
Collateral granted on behalf of clients		-
		150
Investment banking transactions on behalf of third parties		2,035,619
Total on behalf of third parties	$	3,871,061

Transactions on its own behalf

Contingent assets and liabilities	$	2,524
Loan commitments (note 10)		792,231
Assets in trust or under mandate:		
In trust		672,475
Under mandate		200
		672,675
Assets in custody or under management		264,323
Collateral received by the entity (note 8):		
Government debt		71,752
Other debt securities		298
Other financial instruments		5,105
		77,155
Collateral received and sold or pledged by the entity (note 8):		
Government debt		55,263
Other financial instruments		65
		55,328
Uncollected interest accrued on loan portfolio with Stage 3 credit risk		2,195
Other memorandum accounts		4,073,269
Total on its own behalf	$	5,939,700
Shares delivered in custody (units)		15,854,682,820

The historical balance of capital stock as of December 31, 2022 is $1,020.

The accompanying notes are an integral part of the consolidated financial statements.

"This consolidated statement of financial position was prepared in accordance with the accounting criteria for holding and sub-holding companies, issued by the Supervisory Commissions, pursuant to Articles 91, 92, 94 and 101 of the Law to Regulate Financial Groups, general and mandatory, consistently applied, reflecting the transactions carried out by the Holding Company and the financial entities and other companies that are part of the Financial Group that can be consolidated up to the aforementioned date, which were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

"This consolidated statement of financial position was approved by the Board of Directors under the responsibility of the officers who sign it."

SIGNATURE	SIGNATURE	SIGNATURE	SIGNATURE
Eduardo Osuna Osuna	Luis Ignacio De la Luz Dávalos	Adolfo Arcos González	Ana Luisa Miriam Ordorica Amezcua
Chief Executive Officer	Chief Financial Officer	Head of Internal Audit	Head of Corporate Accounting

Grupo Financiero BBVA México, S. A. de C. V. and Subsidiaries

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

Consolidated statement of comprehensive income

From January 1 to December 31, 2022

(MXN millions)

Interest income (note 33)	$	249,181
Interest expense (note 33)		(62,862)
Financial margin		186,319
Allowance for loan losses (note 12)		(35,640)
Financial margin adjusted for loan losses		150,679
Commissions and fees collected (note 34)		59,713
Commissions and fees paid (note 34)		(27,292)
Premium income (net)		37,206
Net increase in technical reserves		(5,594)
Net cost of loss rate, claims or other obligations pending compliance		(35,940)
Financial intermediation income (note 35)		15,419
Other operating income (expense)		(8,040)
Administrative and promotional expenses		(71,110)
Operating revenues		115,041
Interest in net income of other entities (note 19)		254
Income before income tax		115,295
Income tax (note 28)		(30,455)
Income from continuing operations		84,840
Discontinued operations		0
Net income	$	84,840
Other comprehensive income		
Valuation of financial instruments to collect or sell		(3,034)
Valuation of derivative financial instruments for cash flow hedges		(565)
Remeasurement of employee defined benefits		(1,789)
Other comprehensive income for the period		(5,388)
Comprehensive income	$	79,452
Net income attributable to:		
Controlling and non-controlling interest		84,868
Non-controlling interest		(28)
	$	84,840
Comprehensive income attributable to:		
Controlling and non-controlling interest		79,480
Non-controlling interest		(28)
	$	79,452
Basic earnings per common share (pesos per share)	$	9.15

The accompanying notes are an integral part of the consolidated financial statements.

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"This consolidated statement of comprehensive income was approved by the Board of Directors under the responsibility of the officers who sign it. "

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Chief Executive Officer	Chief Financial Officer	Head of Internal Audit	Head of Corporate Accounting

Grupo Financiero BBVA México, S. A. de C. V. and Subsidiaries

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

Consolidated statement of changes in stockholders' equity

From January 1 to December 31, 2022

(MXN millions)

		Paid in capital		Earned capital							
		Capital stock	Additional paid-in capital	Statutory reserves	Cumulative income	Valuation of financial instruments to collect or sell	Result from valuation of cash flow hedging instruments	Remeasurement of employee defined benefits	Total controlling interest	Non-controlling interest	Total stockholders' equity
Balances as of December 31, 2021	$	9,799	79,333	204	239,272	(6,156)	(788)	(2,949)	318,715	52	318,767
Retrospective adjustments for accounting changes					(4,710)				(4,710)		(4,710)
Balances as of January 1, 2022 (adjusted)		9,799	79,333	204	234,562	(6,156)	(788)	(2,949)	314,005	52	314,057
Owner's movements											
Declaration of dividends					(53,945)				(53,945)		(53,945)
Comprehensive income											
Net income					84,840				84,840	28	84,868
Other comprehensive income:											
Valuation of financial instruments to collect or sell						(3,034)			(3,034)		(3,034)
Result from valuation of cash flow hedging instruments							(565)		(565)		(565)
Remeasurement of employee defined benefits								(1,789)	(1,789)		(1,789)
Total		0	0	0	30,895	(3,034)	(565)	(1,789)	25,507	28	25,535
Balances as of December 31, 2022	$	9,799	79,333	204	265,457	(9,190)	(1,353)	(4,738)	339,512	80	339,592

The accompanying notes are an integral part of the consolidated financial statements.

"This consolidated statement of changes in stockholders' equity was prepared in accordance with the accounting criteria for holding and sub-holding companies, issued by the Supervisory Commissions, pursuant to Articles 91, 92, 94 and 101 of the Law to Regulate Financial Groups, general and mandatory, consistently applied, reflecting any movements in the stockholders' equity from the transactions carried out by the Holding Company and the financial entities and other companies that are part of the Financial Group and subject to consolidation, during the aforementioned period, which were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

"This consolidated statement of changes in stockholders' equity was approved by the Board of Directors under the responsibility of the officers who sign it. "

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Eduardo Osuna Osuna	Luis Ignacio De la Luz Dávalos	Adolfo Arcos González	Ana Luisa Miriam Ordorica Amezcua
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Grupo Financiero BBVA México, S. A. de C. V. and Subsidiaries
Av. Paseo de la Reforma 510, Col. Juárez, Ciudad de México, México
Consolidated statement of cash flow
From January 1 to December 31, 2022
(MXN millions)

Operating activities:		
Income before income taxes	$	115,295
Adjustments for items associated with investing activities:		
Depreciation of property, plant and equipment		2,495
Amortization of installation expenses		1,926
Amortization of intangible assets		1,771
Losses or reversal of losses due to impairment of long-lived assets		61
Equity in net income of other entities		(254)
		5,999
Changes in operating items:		
Change in bank and other borrowings		(98)
Change in margin accounts (derivative financial instruments)		(1,819)
Change in investments in financial instruments (securities) (net)		10,326
Change in debtors on repurchases/resales		(26,865)
Change in derivative financial instruments (assets)		(74,891)
Change in loan portfolio (net)		(203,456)
Change in debtors of insurance and bonding companies		(1,913)
Change in amounts recoverable from reinsurance and rebonding (net)		(76)
Change in other accounts receivable (net)		(73,598)
Change in other operating assets (net)		(6,457)
Change in foreclosed assets (net)		(288)
Change in deposits		162,635
Change in technical reserves		34,500
Change in creditors on repurchases/resales		7,199
Change in collateral sold or pledged		2,068
Change in derivative financial instruments (liabilities)		80,094
Change in accounts payable for reinsurance and rebonding (liabilities)		107
Change in derivative financial instruments hedged (of hedged items related to operating activities)		871
Change in assets/liabilities from employee benefits		935
Change in other accounts payable		65,203
Change in other operating liabilities		(3,010)
Payments of income tax		(20,871)
Net cash flows from operating activities		71,890
Investment activities:		
Payments for acquisition of property, plant and equipment		(4,828)
Proceeds for disposal of property, plant and equipment		64
Proceeds for disposal of subsidiaries		33
Payments for acquisition of intangible assets		(2,086)
Net cash flows from investing activities		(6,817)
Financing activities:		
Cash dividend payments		(53,945)
Payments associated with financial instruments that qualify as liabilities		(31,448)
Net cash flows from financing activities		(85,393)
Net increase or decrease in cash and cash equivalents		(20,320)
Effects from changes in the value of cash and cash equivalents		(5,246)
Cash and cash equivalents at beginning of period		301,537
Cash and cash equivalents at the end of the period	$	275,971

The accompanying notes are an integral part of the consolidated financial statements.

"This consolidated statement of cash flow was prepared in accordance with the accounting criteria for holding and sub-holding companies, issued by the Supervisory Commissions, pursuant to Articles 91, 92, 94 and 101 of the Law to Regulate Financial Groups, consistently applied, reflecting all cash inflows and outflows from the transactions carried out by the Holding Company and the financial entities and other companies that are part of the Financial Group and subject to consolidation, during the aforementioned period, which were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

"This consolidated statement of cash flow was approved by the Board of Directors under the responsibility of the officers who sign it."

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Eduardo Osuna Osuna	Luis Ignacio De la Luz Dávalos	Adolfo Arcos González	Ana Luisa Miriam Ordorica Amezcua
Chief Executive Officer	Chief Financial Officer	Head of Internal Audit	Head of Corporate Accounting

(1) Activity and operating regulatory environment-

Grupo Financiero BBVA México, S. A. de C. V. and subsidiaries (the "Group"), is a direct subsidiary of Banco Bilbao Vizcaya Argentaria, S. A. ("BBVA"), and is governed, among others, by the Law Regulating Financial Groups (*Ley para Regular las Agrupaciones Financieras*) (the "Law") as well as the Regulations Applicable to Financial Group Holding Companies (*Disposiciones de Carácter General Aplicables a las Sociedades Controladoras de Grupos Financieros*) (the "Regulations") which regulate any matters corresponding to the National Banking and Securities Commission (the "Commission" or, for its acronym in Spanish, "CNBV") and the National Insurance and Bonding Commission (for its acronym in Spanish, the "CNSF") (collectively, the "Surveillance National Commissions"), and, therefore, is under inspection and surveillance of the Commission. The Group's purpose is acquiring and managing shares issued by multiple banking entities, broker-dealers, insurance companies, investment fund manager, financial entities and any other type of corporations that determines the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*) (SHCP), pursuant to the provisions of the Law. The Group has its address at Avenida Paseo de la Reforma No. 510, Colonia Juárez, Cuauhtémoc, Mexico City, C.P. 06600.

The operations of the Group's subsidiaries have the main purpose of providing services as multiple banking activities, acting as intermediary in the stock exchange, providing insurance and pension services, managing investment fund assets and securities portfolios, as well as providing administrative services. These subsidiaries are governed mainly by the Financial Institutions Law (*Ley de Instituciones de Crédito*), the Securities Market Law (*Ley del Mercado de Valores*), the Insurance and Bonding Institutions Law (*Ley de Instituciones de Seguros y de Fianzas*), the General Corporations Law (*Ley General de Sociedades Mercantiles*), and the general provisions issued by the Mexican central bank (Banco de México) (the "Central Bank"), among other applicable laws.

The powers vested in the Commission -as the entity regulating financial groups-, include reviewing the Groups' financial information and ordering any amendments thereto, if any.

By operation of law, the Group is unlimitedly liable for the obligations and losses of each one of its subsidiaries.

Significant restrictions in the Group

As a Holding Company, the Group may only contract direct or contingent liabilities and give as security its properties in the case of the sole agreement of responsibilities referred to in article 119 of the Law Regulating Financial Groups, of operations with the Institute for the Protection of Savings. Banking and with authorization from the Central Bank, in the case of the issuance of subordinated obligations of forced conversion to securities representing its capital and of obtaining short-term credits, while the placement of shares is carried out due to the incorporation or merger of that the aforementioned Law refers to.

Payment of dividends may be suspended in whole or in part through the application of corrective measures that aim to prevent and, where appropriate, correct any problems that may arise that could affect the financial stability or solvency of the Holding Company or financial entities members of the Group. During 2022, the Group was not in any of these cases.

(2) Authorization and basis of presentation-

Authorization

On February 27, 2023, Eduardo Osuna Osuna, Chief Executive Officer, 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 "consolidated financial statements").

The Group's shareholders and the Commission are authorized to amend the financial statements after their issuance. The accompanying 2022 financial statements will be submitted to the next Shareholders' Meeting for approval.

Basis of presentation

a) Comparability criterion

As of January 2022, new accounting criteria were incorporated for the Mexican financial system, in accordance with the Financial Reporting Standards (hereinafter "Mexican FRS" or "FRS"), including changes in the financial statements and in the main indicators. As a result, financial information published in 2022 is not comparable with the information for 2021, nor with that published in previous years.

In the publication in the Official Gazette of the Federation on December 4, 2020, the second transitory provision sets forth that Holding Companies may adopt a practical solution and recognize the cumulative effect of the accounting changes as of the effective date, *i.e.*, January 1, 2022.

Therefore, comparatives do not have to be presented for each quarter of 2021 and for the period ended December 31, 2021.

b) Declaration of compliance

The Group's consolidated financial statements have been prepared in accordance with the accounting criteria for Financial Group Holding Companies (hereinafter, 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 Accounting Criterion of the Commission and, in a broader context, if there are no criteria in the Mexican Financial Reporting Standards (*Normas de Información Financiera*) issued by the Mexican Board for Research and Development 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 stated in FRS A-8 "Supplementing Provisions." Any supplementary standard that belongs to any other regulatory scheme may only be used if the International Financial Reporting Standards (IFRS) referred to in FRS A-8 do not establish an accounting criterion, provided that all requirements in the FRS are met. The supletoriety 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 criterion A-4 "Supplementary application to the accounting criteria" of the Accounting Criteria issued by the Commission are met.

c) Use of judgment and estimates

The preparation of the consolidated financial statements requires Management to make a number of 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 consolidated financial statements, and the reported amounts of revenues and expenses during the period.

Judgments

Information regarding judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is described in the notes to the consolidated financial statements mentioned below:

— Note 7 – Investments in financial instruments: Securities market values without an observable market.

— Note 9 – Valuation of derivative financial instruments: Key assumptions to determine market value, especially those complex derivatives or without an active market.

— Notes 12 and 15 – Determination of allowance for loan losses and recoverability of accounts receivable: Assumptions and inputs used in its determination.

— Note 17 – Valuation of property, plant and equipment: Impairment tests of fixed assets values, including the key assumptions for determining the recoverable amount of those assets.

— Note 24 – Technical reserves: Key actuarial assumptions for estimating the expected value of future obligations, derived from payments of claims, benefits, guaranteed values, dividends, acquisition and administration expenses, as well as any other future obligation derived from insurance contracts, plus a risk margin.

— Note 25 – Measurement of obligations for defined benefits: Key actuarial assumptions.

— Note 28 – Recognition of deferred tax assets: Availability of future taxable income, and the realization of deferred tax assets.

Assumptions and estimation uncertainties

Information on estimation assumptions and uncertainties that have a significant risk of resulting in a material adjustment to the amounts in the asset and liability books in the following year are included in the following notes to the financial statements:

— Note 7 – Investments in financial instruments: Securities market values without an observable market.

— Note 9 – Valuation of derivative financial instruments: Key assumptions to determine market value, especially those complex derivatives or without an active market.

— Notes 12 and 15 – Determination of allowance for loan losses and recoverability of accounts receivable: assumptions and inputs used in its determination.

— Note 17 – Valuation of property, plant and equipment: Impairment tests of fixed assets values, including the Key assumptions for determining the recoverable amount of those assets.

— Note 24 – Technical reserves, key actuarial assumptions for the estimation of the expected value of future obligations, derived from payments of claims, benefits, guaranteed values, dividends, acquisition and administration expenses, as well as any other future obligation derived from insurance contracts, plus a margin of risk.

— Note 25 – Measurement of obligations for defined benefits: Key actuarial assumptions.

— Note 28 – Recognition of deferred tax assets: Availability of future taxable income, and the realization of deferred taxes assets.

d) Functional and reporting currency

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

For disclosure purposes in the notes to the consolidated financial statements, any reference to "pesos" or "$" means millions of Mexican pesos, and references to "dollars" or "USD" means millions of US Dollars.

e) Financial assets and financial liabilities acknowledgment 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 acknowledged in the consolidated financial statements on the trade date, regardless of the settlement date.

f) Comprehensive income

This item it is composed by 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 Group, are presented directly in the stockholders' equity, such as gain or loss from valuation of financial instruments receivable or for sale, the gain or loss from valuation of derivative financial instruments for cash flow hedges, cumulative translation adjustment, and remeasurements for employee's defined benefits plans.

(3) Significant accounting policies-

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

(a) Recognition of effects of inflation

The Group's consolidated 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 Group 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 (Spanish acronym UDI), a unit used to measure inflation and whose value is established by the Central Bank.

Inflation percentages measured through the value of the UDI for years ended December 31, 2022, 2021 and 2020 were 7.58%, 7.61% and 3.23%, respectively; therefore, annual accrued inflation of the last three years before December 31, 2022, 2021 and 2020 was 19.50%, 14.16% and 11.31%, respectively, the reason why the economic environment for both years qualifies as non-inflationary. As mentioned above, the cumulative effects of inflation until December 31, 2007 are recorded in the consolidated accounting statement as of December 31, 2022.

(b) Principles of consolidation

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

The subsidiaries' financial statements have been prepared according to the accounting criteria established by the Commission, except for the insurance Institutions financial statements, which are prepared under the accounting criteria for insurance and bonding companies in Mexico, issued by the CNSF.

The subsidiaries consolidated with the Group as of December 31, 2022 are detailed as follows:

Company	Share	Activity
-BBVA México, S. A., Institución de Banca Múltiple and Subsidiaries (the "Banco" or "the Institution")	99.99%	Multiple banking activities
-Casa de Bolsa BBVA México, S. A. de C. V. (the "Broker-Dealer")	99.99%	Brokerage services
-BBVA Operadora México, S. A. de C. V. and Subsidiaries"	99.99%	Personnel services provider
-BBVA Servicios Administrativos México, S. A. de C. V. and Subsidiary	99.99%	Personnel services provider
-BBVA Asset Management México, S. A. de C. V., Sociedad Operadora de Fondos de Inversión (the "Fund Manager")	99.99%	Investment fund manager

-BBVA Seguros México, S. A. de C. V. and Subsidiaries ("BBVA Seguros México")	99.99%	Insurance company
-BBVA Pensiones México, S. A. de C. V. and Subsidiaries ("BBVA Pensiones México")	99.99%	Insurance company specializing in pensions
-BBVA Seguros Salud México, S. A. de C. V. ("Seguros Salud")	99.99%	Insurance company specializing in health care

(c) Offsetting financial assets and liabilities

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

(d) Regulatory changes in the adoption of FRSs-

Published in the Official Gazette on and December 21, 2021, the National Surveillance Commissions announced the obligation, effective January 1, 2022, to adopt the following Mexican FRS issued by the CINIF:

– B-17 "Fair value measurement"
– C-2 "Investment in financial instruments"
– C-3 "Accounts receivable"
– C-9 "Provisions, contingencies and commitments"
– C-10 "Derivative financial instruments and hedging relationships"
– C-14 "Derecognition and transfer of financial assets"
– 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"
– D-5 "Leases."

Also, we identified that as a result of the adoption of some Mexican FRS, the following accounting criteria have been repealed:

– B-2 "Investment in securities"
– B-5 "Derivatives"
– B-11 "Collection rights"
– The Accounting Criteria to specific criteria of the C series, to adopt the relevant Mexican FRS:
  - C-1 "Recognition and derecognition of financial assets"
  - C-3 "Related parties"
  - C-4 "Information by segment."

It is worth mentioning that on September 23, 2021, the Resolution that amend the Regulations was issued in the Official Gazette, published on March 13, 2020, 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 "Loan portfolio" in force until December 31, 2021, with such circumstance required to be disclosed in the 2022 quarterly and annual financial statements.

The CNSF issued *Circular Modificatoria 14/21*, which was published in the Official Gazette of the Federation on December 22, 2021, as part of the homologation process with the Mexican NIFs; therefore, it amended the content of Exhibit 22.1.2. to specify the form and terms of the accounting criteria that insurers and bonding companies must apply and adapt the "Application of specific regulations" that came into force on January 1, 2022. Also, the CNSF issued *Circular Modificatoria 12/22*, which was published in the Official Gazette of the Federation on November 28, 2022 to defer the application of Mexican FRS D-1 "Revenue from contracts with clients" and D-2 "Costs from contracts with clients," which will entry into force on January 1, 2024.

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, that the loan portfolio should not be included in the scope of Mexican FRS C-20 "Financial instruments to collect principal and interest" to the loan portfolio and must follow the guidelines and modifications of the new criterion B-6 "Loan portfolio," clarifications to Mexican FRS C-16 in the scope and determination of the allowance for loan losses, and clarifications to Mexican FRS D-5 "Leases," among other clarifications.

In compliance with the provisions of the Regulations and as part of our disclosures in the notes to the consolidated financial statements, we have provided detail on:

i. The adoption mechanics were executed based on the Accounting Standards Implementation Process, through the creation of projects and complying with the following phases in the fiscal years, from the publication of the first drafts of the criteria:

- Regulatory Analysis. - Delimitation of impacts and scope.
- GAP analysis. - Analysis and confirmation of impacts with intervening areas.
- Master Plan. - Concentration of conceptual impacts, actions and responsible persons for implementing all affected areas and the involvement of senior management.
- Execution of lines of action - Design and solution, implementation and follow-up.

This project has established the definitions of accounting policies and processes for the implementation of standards that have implications both in the consolidated financial statements and in operations (risk admission and monitoring, changes in systems, management metrics, etc.) and, finally, in the process of preparing the consolidated financial statements.

In accordance with the transitory articles mentioned in the Regulations, and as a practical solution, the Holding Companies in the application of the accounting criteria that are modified may recognize on the date of initial application, that is, on January 1, 2022, the cumulative effect of the accounting changes. Also, the basic (consolidated) quarterly and annual financial statements required from Holding Companies under the Regulations relating to the period ended December 31, 2022, should not be presented with comparisons with each quarter of the year 2021 and for the year ended December 31, 2021.

The Group adopted this practical solution set forth in the Regulations; therefore, our financial information of past years is not comparable. As a result of the implementation of such criteria effective January 1, 2022, the Group's initial consolidated statement of financial position is shown below, as follows:

Grupo Financiero BBVA México, S. A. de C. V. and Subsidiaries

Statement of financial position

ASSETS	12/31/2021	ASSETS	IMPACT	01/01/2022	EFFECT
Cash in hand	$ 301,537	Cash and cash equivalents		$ 301,537	
Margin accounts (derivatives)	8,216	Margin accounts (derivative financial instruments)		8,216	
Investment in securities	849,765	Investments in financial instruments		849,744	
Trading securities	403,705	Negotiable financial instruments		403,705	Implementation of Business Models, ALL of the FICPI instruments
Available-for-sale	248,822	Financial instruments to collect or sell		248,822	
Held to maturity	197,238	FIPCI (securities) (net)	$ (21)	197,217	
Repurchase agreement receivables	8,214	Repurchase agreement receivables		8,214	
Securities lending	-	Securities lending		-	
Derivatives	146,702	Derivative financial instruments	(312)	146,390	Recognition of counterparty risk adjustment (CVA) for OTC derivative positions
Valuation adjustments for the hedging of financial assets	475	Valuation adjustments for the hedging of financial assets		475	
Performing loan portfolio	1,291,449	Loan portfolio with stage 1 credit risk	(42,139)	1,249,310	Implementation of Amortized Cost and Portfolio at fair value business models, Classification of Portfolio by stages of credit risk level, Credit Cards portfolio in stage 3 at 90 days past due
		Loan portfolio with stage 2 credit risk	30,921	30,921	
Non-performing loan portfolio	22,699	Loan portfolio with stage 3 credit risk	6,188	28,887	
		Loan portfolio valued at fair value	5,091	5,091	
Loan portfolio	1,314,148	Loan portfolio	57	1,314,205	
Allowance for loan losses	(34,941)	Allowance for loan losses	(8,047)	(42,988)	Increase in ALL due to New Rating Models
		Loan portfolio with stage 1 credit risk	11,832	11,832	
		Loan portfolio with stage 2 credit risk	(4,266)	(4,266)	
		Loan portfolio with stage 3 credit risk	(15,613)	(15,613)	
Loan portfolio (net)	1,279,207	Loan portfolio (net)	(7,990)	1,271,217	
Other accounts receivable	65,798	Other accounts receivable (net)	(35)	65,763	Increase in ALL for other accounts receivable (receivable from employees)
		Allowance for expected loan losses	(35)	(35)	
Foreclosed assets	989	Foreclosed assets (net)	334	1,323	Initial recognition of foreclosed assets, considering the lower of the net realizable value and the gross credit value.
Premium receivable, Net	9,669	Premium receivable, Net		9,669	
Accounts receivable from reinsurers	1,203	Accounts receivable from reinsurers		1,203	
Other assets	2,845	Advanced payments and other assets (net)	(345)	2,500	Reclassification of origination costs of financial liabilities
Property, plant and equipment	36,021	Property, plant and equipment (net)		36,021	
		RU assets property, plant and equipment (net)	4,227	4,227	Right-of-use assets from long-term leases of branch offices

Grupo Financiero BBVA México, S. A. de C. V. and Subsidiaries

Statement of financial position

ASSETS	12/31/2021	ASSETS	NET IMPACT	01/01/2022	EFFECT
Permanent investments	1,289	Permanent investments		1,289	
Deferred income tax and employee profit sharing (net)	26,840	Deferred income tax and employee profit sharing (net)	2,316	29,156	Deferred tax on initial effects
Intangible assets	13,599	Intangible assets		13,599	
TOTAL, ASSETS	$ 2,752,369	TOTAL, ASSETS	$ (1,826)	$ 2,750,543	

Grupo Financiero BBVA México, S. A. de C. V. and Subsidiaries

Statement of financial position

LIABILITIES AND EQUITY	12/31/2021	LIABILITIES AND EQUITY	NET IMPACT	01/01/2022	EFFECT
Traditional deposits	$ 1,555,032	Traditional deposits	$ (6)	$ 1,555,026	
Demand deposits	1,241,780	Demand deposits		1,241,780	
Time deposits	219,865	Time deposits		219,865	
Negotiable instruments issued	87,984	Negotiable instruments issued	(6)	87,978	
Global deposit account without transactions	5,403	Global deposit account without transactions		5,403	
Bank and other borrowings	39,433	Bank and other borrowings		39,433	
Technical reserves	272,880	Technical reserves		272,880	
Reinsurance accounts payable	1,082	Reinsurance accounts payable		1,082	
Repurchase/resale agreements payable	164,918	Repurchase/resale agreements payable		164,918	
Securities lending	2	Securities lending		2	
Collateral sold or pledged	52,742	Collateral sold or pledged		52,742	
Derivatives	158,581	Derivative financial instruments	(1,025)	157,556	Recognition of the debit valuation adjustment (DVA) for OTC derivative positions
Valuation adjustments for financial liabilities hedging	2,947	Valuation adjustments for financial liabilities hedging		2,947	
	-	Liabilities on leases	4,227	4,227	Liabilities discounted and recognized at present value for long-term branch leases
Other accounts payable	106,015	Other accounts payable		106,015	
Provisions for sundry obligations	11,767	Provisions for sundry obligations		11,767	
Other sundry creditors	94,248	Other sundry creditors		94,248	
Subordinated debt	72,056	Subordinated debt	(292)	71,764	Reclassification of origination costs and revenues of financial liabilities measured at amortized cost
Deferred credits and prepayments	7,914	Deferred credits and prepayments	(47)	7,867	
TOTAL, LIABILITIES	2,433,602	TOTAL, LIABILITIES	2,857	2,436,459	
STOCKHOLDERS' EQUITY	318,767	STOCKHOLDERS' EQUITY	(4,683)	314,084	
Contributed capital	89,132	Contributed capital		89,132	
Earned capital:	229,583	Earned capital:	(4,683)	224,900	
Equity reserves	204	Equity reserves		204	
Results of prior years	229,379	Cumulative results:	(4,710)	224,669	Net effect of deferred taxes and profit sharing due to the implementation of the new accounting criteria and its breakdown is shown in the following table.

Grupo Financiero BBVA México, S. A. de C. V. and Subsidiaries

Statement of financial position

LIABILITIES AND EQUITY	12/31/2021	LIABILITIES AND EQUITY	IMPACT	01/01/2022	EFFECT
Net Result	65,502	Net Result		65,502	
		Effect new criteria:	(4,710)	(4,710)	
		Other comprehensive income	27	27	
Noncontrolling interest	52	Noncontrolling interest	-	52	
TOTAL, LIABILITIES AND EQUITY	$ 2,752,369	TOTAL, LIABILITIES AND EQUITY	$ (1,826)	$ 2,750,543	

The effect of the implementation, net of deferred taxes (IT and EPS) was a decrease of ($4,710) applied to cumulative earnings, within stockholders' equity, as follows:

Item	Cumulative Earnings	Deferred	Net effect
ALL loan portfolio	$ (8,047)	$ 2,635	$ (5,412)
ALL FICPI investments	(52)	16	(36)
ALL other accounts receivable	(35)	12	(23)
Valuation of loans at fair value	(35)	12	(23)
CRA	47	(16)	31
CVA	(359)	122	(237)
DVA	1,025	(350)	675
Portfolio interest Delinquent 2 Credit Cards	96	-	96
Foreclosed assets	334	(115)	219
Total	$ (7,026)	$ 2,316	$ (4,710)

ii. 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 specific rules:

Mexican FRS B-17 "Fair value measurement." - 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. 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 Group's intention to hold an asset or liquidate, or otherwise satisfy a liability, is not relevant in the determination of fair value.

The Commission issues clarifications that adjust the specific standards of recognition, valuation, reporting and, where appropriate, disclosure of this Mexican FRS that are mandatory to the Group and 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.

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.

c) 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.

d) Considers the recognition of the Credit Valuation Adjustment (CVA) and the Debit Valuation Adjustment (DVA) in "Over the Counter" (OTC) derivative financial instruments.

Management acknowledged the initial effect of the entry into force of this standard and the Commission's clarifications in the special rules; therefore, the Group has identified its financial instruments recorded at fair value in the consolidated statement of financial position and has documented as part of its internal policies the valuation methods, assumptions and inputs used in estimating the fair value of financial instruments according to the fair value hierarchy Levels 2 and 3, in accordance with the accounting criteria. The Group has also incorporated as part of its procedures the periodic review to identify if it is necessary to make any changes in the classification between levels.

On the other hand, the Group has incorporated in the valuations of OTC derivatives, both assets and liabilities, the CVA and DVA, respectively, to reflect the impact on the fair value of the counterparty's and the Group's own credit risk, respectively. The initial effect recognized against cumulative earnings within stockholders' equity is as follows:

- Credit for the reversal of the risk of credit risk adjustments (CRA) against the heading of the valuation of derivative financial instruments for $47.

- Charge for the initial effect of CVA against a credit in assets for derivative financial instruments for OTC trading purposes for $359.

- Credit for the initial effect of the DVA against a charge in liabilities for derivative financial instruments for OTC trading purposes for $1,025.

Mexican FRS C-2 "Investment in financial instruments" –Accounting Criteria B-2 "Investments in securities" issued by the Commission is repealed and it is provided that the Mexican FRS C-2 "Investment in financial instruments" 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:

    - Financial Instruments to Collect Principal and Interest (FICPI).

    - Financial Instruments to Collect or Sell (FICS).

    - Negotiable financial instruments (NFI).

– 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.

The Commission issues clarifications that adjust the specific standards of recognition, valuation, reporting and, where appropriate, disclosure of this Mexican FRS that are mandatory to the Group and 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 "Investment in financial instruments" 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 "Impairment of financial instruments receivable."

– 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 acknowledged the initial effect of the entry into force of this standard through the adoption of business models for the classification and measurement of investments in financial instruments that are detailed below:

– Negotiable financial instruments (NFI).

– Financial Instruments to Collect or Sell (FICS).

– Financial Instruments to Collect Principal and Interest (FICPI).

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:

– 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.

The Commission issues clarifications that adjust the specific standards of recognition, valuation, reporting and, where appropriate, disclosure of this Mexican FRS that are mandatory to the Group.

Management acknowledged the initial effect of the entry into force of this standard, which is considered immaterial for purposes of the consolidated financial statements as a whole.The Group has also documented as part of its accounting policies the scope of the types of accounts receivable with a term of less than one year and for the purposes of recognizing the expected loan loss it adopts the practical application provided for by FRS C-16 "Impairment of financial instruments receivable" and specified in criterion A-2 "Application of specific rules"; therefore, the various debtors that are not recovered within 60 or 90 days after their initial registration, depending on whether the debtors are not identified or are identified, are 100% reserved.

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."

The Commission issues clarifications that adjust the specific standards of recognition, valuation, reporting and, where appropriate, disclosure of this Mexican FRS that are mandatory to the Group and are as follows:

- The provisions of Mexican FRS C-9 "Provisions, contingencies and commitments" 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 "Provisions, contingencies and commitments."

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 acknowledged the initial effect of the entry into force of this standard, which is considered immaterial for 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 Group's consolidated financial statements.

Clarifications that adjust the specific standards of recognition, valuation, reporting and, where appropriate, disclosure of this Mexican FRS that are mandatory to the Group are as follows:

- In addition to the terms included in Mexican FRS C-10 "Derivative financial instruments and hedging relationships" 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 and b) Total Return Derivative Financial Instruments.

- Fair value hedge for interest rate risk of a portion of a portfolio made up of financial assets or financial liabilities

- 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.

Management acknowledged the initial effect of the entry into force of this standard, which is considered immaterial for purposes of the consolidated financial statements as a whole. Also, the Group has documented in its internal policy manuals the alignment of hedging as part of the Comprehensive Risk Management strategy and the relevant approvals have been obtained.

Mexican FRS C-13 "Related parties" – Clarifications adjusting the specific rules of recognition, valuation, reporting and, where appropriate, disclosure of this Mexican FRS that are mandatory to the Group are as follows:

For purposes of complying with the disclosure standards contained in Mexican FRS C-13 "Related parties," entities must additionally consider, as related parties:

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 "Related parties," 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 "Related parties," 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 acknowledged the initial effect of the entry into force of this standard, which is considered immaterial for purposes of the consolidated financial statements as a whole.

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.

The Commission issues clarifications that adjust the specific standards of recognition, valuation, reporting and, where appropriate, disclosure of this Mexican FRS that are mandatory to the Group:

Management acknowledged the initial effect of the entry into force of this standard, which is considered immaterial for 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.

The Commission issues clarifications that adjust the specific standards of recognition, valuation, reporting and, where appropriate, disclosure of this Mexican FRS that are mandatory to the Group:

Expected loan losses due to the impairment of investments in financial instruments as indicated in section 45 of Mexican FRS C-2 "Investment in financial instruments" must be determined in accordance with the provisions of Mexican FRS C-16 "Impairment of financial instruments receivable." 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 consolidated financial statements on the transition date, the Group 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 "Impairment of financial instruments receivable" 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.

On the other hand, pursuant to official communication dated November 24, 2022, the Group informed the Commission of the decision to cease the application of internal reserve methodology based on FRS C-16 "Impairment of financial instruments receivable" and apply the General Methodology Standard to determine reserves of the Non-Revolving Consumer and Small and Medium-Size Enterprises portfolio while it is in the process of receiving approval for the application of internal methodologies for capital requirements. Based on the foregoing, as of November 2022, the Standard General Methodology for Non-Revolving Consumer and Small and Medium-Size Enterprises portfolio was once again applied and an amount of $1,365 and $5,553, respectively, was determined as additional allowance for loan losses, which correspond to the difference between the allowances for loan losses obtained under the Internal Reserve Methodology, FRS C-16 "Impairment of financial instruments receivable" and the amount of allowances obtained with the Standard General Methodology, with figures as of the end of October 2022.

Calculation under the Standard General Methodology for Non-Revolving Consumer Portfolio is carried out in accordance with Chapter V Bis, Section One, Part A of the General Regulations Applicable to Banks (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*). Regarding Small and Medium-Size Enterprises Portfolio, calculation under the Standard General Methodology is carried out in accordance with Chapter V Bis, Section Three, Part A of the General Regulations Applicable to Banks (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*).

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 acknowledged the initial cumulative effect of the entry into force of this standard in a net amount of $5,412 of profit-sharing and deferred Income Tax, 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 "Investment in financial instruments," the Management has determined the loan losses in accordance with the provisions of Mexican FRS C-16 "Impairment of financial instruments receivable" and is consistent with the loan portfolio rating methodology. Management acknowledged 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, which amounted to a net amount of profit sharing and deferred income tax of $36 charged to the results of previous years.

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 that adjust the specific standards of recognition, valuation, reporting and, where appropriate, disclosure of this Mexican FRS that are mandatory to the Group are as follows:

For the purposes of Mexican FRS C-19 "Financial instruments payable," the liabilities related to the transactions referred to in B-3 "Repurchase/resale transactions" and B-4 "Securities lending" 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 "Financial instruments payable" 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 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 "Financial instruments payable" will not be applicable to entities.

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

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 that adjust the specific standards of recognition, valuation, reporting and, where appropriate, disclosure of this Mexican FRS that are mandatory to the Group are as follows:

- For the purposes of Mexican FRS C-20 "Financial instruments to collect principal and interest," the assets originated by the transactions referred to in B-6, issued by the Commission, should not be included, since the recognition, valuation, reporting 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 "Financial instruments to collect principal and interest" 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 "Financial instruments to collect principal and interest," 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.

– *Loans to retirees*

Loans to retirees will be considered part of the loan portfolio and must adhere to the guidelines of criterion B-6 "Loan portfolio," 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 acknowledged the initial effect of the entry into force of this standard, which is considered immaterial for purposes of the consolidated financial statements as a whole.

Regarding the determination of impairment applicable to accounts receivable for loans to employees, Management has determined credit losses in accordance with the provisions of FRS C-16 "Impairment of financial instruments receivable" and is consistent with the loan portfolio rating methodology. Management acknowledged the initial effect of the entry into force of this standard, which, although it was considered immaterial for the purposes of the consolidated financial statements as a whole, the initial effect was in fact recorded in a net amount of profit sharing and deferred income tax of $23 charged to the results of previous years.

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 acknowledged the initial effect of the entry into force of this standard, which is considered immaterial for purposes of the consolidated financial statements as a whole.

Mexican FRS D-2 "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 acknowledged the initial effect of the entry into force of this standard, which is considered immaterial for purposes of the consolidated financial statements as a whole.

Mexican FRS D-4 "Income Tax." - Clarifications that adjust the specific standards of recognition, valuation, reporting and, where appropriate, disclosure of this Mexican FRS that are mandatory to the Group 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 acknowledged the initial effect of the entry into force of this standard, which is considered immaterial for purposes of the consolidated 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.
- An expense is recognized for depreciation or amortization of assets for right of use and an interest expense on lease liabilities.

– 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 "Lease," and only some disclosure requirements are added.

Clarifications that adjust the specific standards of recognition, valuation, reporting and, where appropriate, disclosure of this Mexican FRS that are mandatory to the Group are as follows:

– *Financial 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 "Loan portfolio," with the exception of the provisions of paragraph 67 of B-6 "Loan portfolio."

For purposes of the provisions of paragraph 42.1.4, subsection c) and subsection d) of Mexican FRS D-5 "Leases," 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 Group has chosen to apply the provisions of Article Transitory Eight of the Resolutions (Official Gazette of the Federation, 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 Group 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.

i) The main amendments to the Standards regarding recognition, valuation, reporting and disclosure applicable to specific items of the consolidated 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 acknowledged the initial effect of the entry into force of this standard, which is considered immaterial for purposes of the consolidated financial statements as a whole.

B. B-3 "Repurchase/resale transactions"

B-3 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 acknowledged the initial effect of the entry into force of this standard, which is considered immaterial for purposes of the consolidated 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:

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 "Loan portfolio" 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.

Loan portfolio renegotiations:

- 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:

- Valuation of loans denominated in VSM (times minimum wage) or UMA (unit of measure and update) is recognized directly in the results of the year, when said units of measure are modified.

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

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 "Loan portfolio" 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.

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:

– The analysis of the loan portfolio was conducted and 99.6% complies with the Amortized Cost Business Model the objective of which is to maintain financial assets to receive the contract cash flows and to comply with the evaluation of whether the contract flows correspond only to payments of principal and interest in order to hold it to maturity. The rest of the portfolio, which represents 0.4%, corresponds to the loan portfolio that does not meet the evaluation of only principal and interest payments and must be measured at fair value.

The Business Models at amortized cost have been ratified before the Credit Committee and the evaluations of only payment of principal and interest for individualized loans and standardized products have been communicated.

– In the statement of financial position, the parameterizations were executed in the application systems where the loan portfolio is managed to record it by levels of credit risk in stages 1, 2 and 3.

The design and implementation of the criteria for transferring a portfolio with a credit risk in stages has been based in the accounting guidelines of B-6 "Loan portfolio" and in the criteria contained in the Regulations referring to the application of methodologies for portfolios with internal model and the standard methodology. Criteria incorporated into the risk and accounting policies.

Given these amendments, for the credit card product, its transfer to stage 3 after 90 days has been approved, like the rest of the portfolios. This effect resulted in the recognition of interest in stage 2, which was previously managed in memorandum accounts, and whose impact was a credit against retained earnings for $96.

- The increase due to the revaluation adjustment of the unpaid balance of loans denominated in VSM or UMA is recognized as part of the portfolio balance as interest income against results, which amounted to $800.

- On the other hand, it is necessary to comment that Management opted for the facility issued by the regulator, as indicated in the third paragraph of this Note, so that the Group 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 "Loan portfolio" 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. It is worth mentioning that the results of applying the effective interest method as of January 2023 are shown in Note 42 "Regulatory pronouncements recently issued."

D. *B-7 "Foreclosed assets."*

The main changes 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 acknowledged the initial effect of the entry into force of this standard, which corresponds to a decrease in the balance of foreclosed assets in the amount of $89, a $423 charge to the reserve of foreclosed assets with respect to a credit to cumulative earnings in an amount of $334.

ii) 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 on 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."

With respect to the transactions referred before, the balance receivable or payable must be disclosed, for each type of transaction from which they come (currency, investments in financial instruments, repos, 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.

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 acknowledged the initial effect of the entry into force of this standard, which is considered immaterial for purposes of the consolidated financial statements as a whole.

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."

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 RFS D-3 "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."

The Group's Management estimates that the effects of adopting the improvements to the FRS will not be material for the consolidated financial statements as a whole.

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash in 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. Also includes bank borrowings with original maturities of up to three days ("Call Money"), and monetary regulation deposits in the Central Bank (the latter deposits, considered restricted cash equivalents, are formed pursuant to Official Circular 3/2012 "Regulations applicable to transactions of financial institutions and the rural financial entity," issued by the Central Bank, as well as highly liquid financial instruments that are securities the disposal of which is expected within a maximum of 48 hours from acquisition.

Cash and cash equivalents are valued at fair value, which is their nominal value and for currencies in dollars, the exchange rate for the translation is the one published by the Central Bank on the same day in accordance with the rules issued by the Commission. As of the date of the financial statements, profits or losses due to the translation effect and accrued interest income are recognized in the year's results.

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

The amount of overdrafts in checking accounts, the cleared 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 "Sundry creditors and other accounts payable."

(f) Margin accounts-

Margin accounts are made up of collateral pledged in cash (and in other assets equivalent to cash) that is requested to entities for entering into transactions with derivative financial instruments in organized markets or exchanges, recorded at nominal value.

For margin accounts assigned to the clearinghouse different from cash, as would be the case of debt instruments or shares, where the clearinghouse 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 derived from transactions with 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.

(g) Fair value determination and hierarchy

Governance and control model

The fair value determination process established in the Group ensures that financial assets and liabilities are valued in accordance with the criteria defined in FRS B-17 "Fair value measurement" as well as in the Regulations.

Valuación Operativa y Referencia de Mercado, S. A. de C. V. (Valmer) is the Group's price provider.

For instruments recognized at fair value, the Market Variables Department is responsible for the following functions: - Identification. It includes the identification and classification of instruments subject to valuation with the purpose of establishing the models and the inputs for the determination of the relevant prices. - Modeling of instruments. Determine the valuation models, definition of inputs and price sources that reflect the correct values for each type of instrument. The internal valuation models, and their modifications, estimation methods of variables used, and the values and other instruments to which they are applicable, are approved by the Risk Committee. - Validation of market levels. Ensure that the price information obtained is in accordance with the market levels negotiated in a given period. - Incorporation and refinement of prices. Consolidate the price vector and enter it into the different systems that serve the information user areas- Internal price dissemination. Publication of prices to different areas, through vectors on public servers, email or internal publication computer pages.

The ALM (Asset & Liability Management) unit is responsible for calculating the fair value and hierarchy of all banking book items accounted for at amortized cost, ensuring that the calculation is made using management models and measurement of structural risk of interest rate. It ensures that the input data and assumptions are consistent with those used in the Economic Value measurement. The calculation is made using corporate tools.

General valuation criteria

All financial instruments, both assets and liabilities, are initially recognized at fair value, which, at that first moment, is equivalent to the transaction price, unless there is evidence to the contrary in an active market. Subsequently, and depending on the nature of the financial instrument, it may continue to be recorded at amortized cost or at fair value.

Fair value is determined as the market price that would be received to sell or transfer a financial asset or liability, respectively. However, for certain financial instruments of the Group, especially in the case of derivatives, there is no available market price, so their fair value is estimated through recent transactions of similar instruments or otherwise, through of mathematical valuation models sufficiently verified by the international financial community. When using these models, the specific characteristics of the asset or liability to be valued are taken into account and, especially, the different types of risks associated with the asset or liability. Notwithstanding the foregoing, the limitations of the valuation models developed and possible inaccuracies in the assumptions and parameters required by these models may result in the estimated fair value of a financial asset or liability not matching exactly the price at which the asset or liability could be delivered or settled at the valuation date.

In general, the Group considers an active market to be one that allows the observation of bid and ask prices representative of the levels to which the market participants would be willing to negotiate a certain asset or liability, with sufficient frequency and daily volume.

The Group applies the direct vector valuation considering the adjusted price for valuation provided by the price provider on the following financial instruments:

a. Securities registered in the National Securities Registry or authorized, registered or regulated in markets recognized by the Commission using general regulations.

b. Derivative Financial Instruments listed on national derivatives exchanges or belonging to markets recognized by the Central Bank in Mexico.

c. Underlying assets and other financial instruments that are part of structured transactions or packages of derivatives, when they are Securities or financial instruments provided for in sections I and II above.

In the valuation of instruments other than those mentioned in the preceding paragraphs, internal valuation models are applied to obtain the restated price for valuation.

In case of loan portfolios, valuation rules established in B-6 "Loan Portfolio" are applied.

Fair value hierarchy

The process for determining the fair value requires the classification of financial assets and liabilities based on the input data used to determine their fair value, as set forth below:

Level 1: Valuation using directly the quotation of the instrument, observable and readily and regularly available from independent price sources and referenced to active markets that the entity can access at the measurement date. The instruments classified within this level are fixed-income securities, equity instruments and certain derivatives.

Level 2: Valuation with commonly accepted techniques that use inputs obtained from observable data in markets.

Level 3: Valuation through valuation techniques in which significant variables are used that are not obtained from observable data in the market.

In some cases, inputs used to determine fair value may be classified within different levels of the fair value hierarchy, depending on whether or not the observable inputs are significant. In these cases, the fair value determination is classified in its entirety within the same level of the fair value hierarchy as the lowest level input that is significant to the entire valuation. Professional judgment is applied in assessing the relevance of a particular input to the full valuation.

The Group does not classify within the Level 1 hierarchy level the updated prices for valuation that are determined through the use of internal valuation models.

(h) Investments in financial instruments-

It includes debt financial instruments (government securities, bank paper, stock certificates and commercial paper) and capital, listed and unlisted, classified as Negotiable financial instruments (NFI), Financial Instruments to Collect or Sell (FICS) and Financial Instruments to Collect Principal and Interest (FICPI). Classification depends on the business model under which they are managed by the Group's Management, and the evaluation of the contractual characteristics of the cash flows.

The business model is based on the way in which the Group manages investments in financial instruments to generate cash flows and not on a particular intention to hold an instrument. In each Group entity there are different business models to manage financial instruments.

To determine the business model, the following are taken into account, among other factors:

- The manner in which the performance of the instruments that are part of the business model is determined and reported to the entity's key personnel,
- The risks and the way in which the risks that affect the performance of the business model are managed;
- The way in which business model managers are remunerated,
- The frequency, amount and timing of sales in previous years, the reasons for such sales and expectations regarding future sales.

The determination of the business model is not based on scenarios that are not reasonably expected to occur.

Based on the foregoing, financial instruments are classified and recognized in accounting as described below:

– *Negotiable financial instruments (NFI)-*

Debt and equity instruments that the Group has in its own position and whose business model is intended to obtain a profit between the purchase and sale price, i.e., based on the management of the market risks of such instrument. Transaction costs for the acquisition of the instruments are recognized in income for the year on the date of arrangement. Subsequently, they are valued at fair value, the valuation effect of which is recognized in the consolidated statement of income under the caption "Trading income."

– *Financial Instruments to Collect or Sell (FICS)-*

Financial instruments under a business model whose objective is to collect contractual cash flows from collections of principal and interest, or to obtain a profit on their sale, when appropriate. They are initially recognized at fair value, transaction costs are recognized as an implicit part of the amortized cost and are applied to the net profit or loss over the expected life of the instruments.

Subsequently, they are valued at fair value, recognizing the effect on stockholders' equity under "Valuation of financial instruments to collect or sell," net of deferred taxes, which is cancelled and recognized in income upon sale.

– *Financial instruments to collect principal and interest (FICPI)-*

Debt instruments whose objective is to collect the contractual cash flows; the contractual terms provide for cash flows on pre-established dates that correspond only to payments of principal and interest on the principal amount pending payment.

They are initially recognized at their fair value, which corresponds to the agreed consideration. Transaction costs are recognized as an implicit part of the amortized cost and are applied to the net profit or loss over the expected life of the instruments according to the effective interest method.

– *Other business models-*

In general, equity financial instruments are valued at fair value, recognizing variations in net profit or loss for the year; however, the effects of variations in the fair value of instruments that are not traded in the short term are recognized irrevocably within "Other Comprehensive Income." At the time of their realization, said effects are recycled to the net income or loss of the year.

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

– *Reclassifications*

Reclassifications of financial instruments are only carried out when the Group decides to change the business model. In any case, reclassifications are authorized by the Risk Committee and informed in writing to the Commission, detailing the change in the business model that justifies them.

During the year ended December 31, 2022, the Group did not carry out reclassifications of financial instruments.

– *Investment impairment-*

The expected credit losses due to the impairment of investments classified as FICS and FICPI are calculated in accordance with the Internal Methodologies based on FRS C-16 "Impairment of financial instruments receivable" and defined by the General Office of Risks, recognizing their effects in the year's results.

Pursuant to official communication 121-1/14591541/2022, dated January 10, 2022, the Commission authorized the implementation plan of the Internal Methodologies for reserves and allowances based on Mexican FRS C-16 "Impairment of financial instruments receivable," to determine the allowance for loan losses by credit risk level for the Group's six relevant portfolios as of January 2022, including the Mortgage portfolio. The foregoing, in accordance with the provisions of Article 139 Bis 3, section I, of the Regulations. Said methodology was estimated with information as of September 2019.

Calculation of the expected credit loss requires a temporary structure during the life of the transaction and is based on the following components, in accordance with the minimum requirements for own estimates of risk parameters provided for in Schedule 15 Bis of the Regulations:

- Probability of default (PD): An estimate of the likelihood of default over a given time horizon.

- Loss Given Default (LGD): An estimate of the loss arising in case a default. It is based on the difference between the contractual cash flows due and those that lender would expect to receive, including from any collateral.

- Exposure at Default (EAD): An estimate of exposure at a future date of default, taking into account expected changes in the exposure after the reporting date, including expected repayments and drawdowns on committed facilities (CCFs).

- Term to maturity

- Discount rate: To discount an expected loss to present value at the reporting date using the annual interest rate of the transaction, which should be determined in accordance with the original terms and conditions of the contract.

The procedures for estimating the probability of default, loss given default and exposure at default, for appropriately assigning and modifying the level of credit risk of exposures are consistent and in accordance with the criteria for recognizing the level of credit risk of a borrower, in stages 1, 2 or 3, including prospective scenarios.

Expected credit losses will be assessed for one of the two time horizons, depending on whether the borrower's credit risk has increased significantly since origination. If it has increased (step 2), expected credit losses will be calculated over the life of the asset. If not, provisions will be based on the 12-month expected credit losses. Expected credit losses on impaired assets (step 3) will be expected credit losses over the life of the asset.

– *Value date transactions*

Financial instruments purchased agreed to be settled on a date subsequent to the date on which the purchase and sale transaction is entered into are recognized as restricted securities, while instruments sold are recognized as securities to be delivered, reducing the investment securities position. The counterparty must be a clearing, credit or debit account, as appropriate.

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

(i) Repurchase/resale agreements-

Repurchase agreements are recorded as follows:

The repurchase/resale agreements that do not comply with the terms of criterion C-14 "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 "cash oriented" or "securities-oriented" repurchase/resale agreement.

Acting as seller on resale agreements

On the contract date of the repurchase/resale agreement, either cash is received or a debit clearing account is created as well as a payable account valued at the price agreed at origination, and represents the obligation to repay the cash to the seller at a future date. Throughout the term of the repurchase/resale agreement, the payable account is valued at amortized cost and the corresponding accrued interest is recorded in the results for the year, in accordance with the effective interest rate method.

In relation to the collateral granted, financial assets transferred to the seller are reclassified by the Group in the consolidated statement of financial position, and presented as restricted securities, which continue to be valued in accordance with the accounting policy of the corresponding asset classification, until the maturity date of the repurchase/resale agreement.

Acting as buyer on repurchase agreements

The Group acting as a buyer, on the date of contracting the repurchase agreement transaction, recognizes the outflow of cash and cash equivalent 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 established in accounting criterion B-9, "Custody and Administration of Assets" (B-9) 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 for its sale, or, if it is given as collateral in another repurchase transaction, at its 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 established in accounting criterion B-9 "Assets in custody or under management."

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.

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.

(j) Securities lending-

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

Acting as lender

At the contracting date of the securities lending, when the Group 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 that guarantees 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 "Interest income."

Acting as borrower

As of the contract date of the securities lending, the Group records the security subject matter of the loan received in memorandum accounts, following the valuation guidelines for the securities recognized, in the account B-9 "Assets in custody or under management," 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 Group sells the security subject matter of the transaction, it must recognize the proceeds from the sale, as well as 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, 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 "Repurchase/resale transactions" 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 "Interest expense."

(k) Clearing accounts settlement-

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, net" 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 Group 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.

(l) Derivatives-

The Group executes two different types of transactions based on intention:

– Trading - Consists of the position assumed by the Group 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 Group's policies require that for purposes of entering into derivative transactions, the qualification and, where appropriate, authorization of risk exposure lines by each one of the counterparts of the financial system that have been authorized by the Central Bank for the execution of this type of operations is required. Prior to carrying out these transactions with corporate clients, a credit line authorized must be granted by the Credit Risk Committee or provide readily realizable guarantees through the pertinent bond contracts. Transactions involving mid-sized and small 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 consolidated financial statements on the date the transaction is carried out, regardless of the date of settlement or delivery of the asset.

The Group 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 statement of financial position 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 "Net gain on financial assets and liabilities."

Derivatives must be presented under a specific asset or liability item 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 established by the applicable accounting criterion.

In the consolidated statement of financial position, the heading 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 in domestic exchanges or traded in markets recognized by the Central Bank.

Trading transactions

– *Warrants*

Warrants are documents which represent a temporary right acquired by the holders in exchange for the payment of a premium for the issue 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 warrant in the secondary market may vary based on the market price of the reference assets.

– *Forwards and futures*

For options purchased the 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 options purchased, 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 options sold, 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 (cash flow receivable) and the liability (cash flow payable).

Hedging transactions-

Hedge derivatives are valued at market value, and the effect is recognized depending on the type of accounting hedge, 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 in the account "Result from valuation of cash flow hedges" in Comprehensive Income. The ineffective part is recorded in results of the period under "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 Other Comprehensive Income and the ineffective portion is recognized in results.

Embedded derivatives-

– The Group 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 where the reference underlying is an interest rate with embedded cap, floor and collar, the reference underlying's is considered to be closely related to the host contract, and consequently, these derivatives 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 "Other accounts receivable, net," whereas the account payable generated for the reception of collateral provided in cash is presented under "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.

Adjustments to the valuation for risk of default

The fair value of liabilities should reflect the entity's default risk, which includes, among other components, its own credit risk. In view of the above, the Group makes valuation adjustments for credit risk in estimating the fair value of its assets and liabilities.

Adjustments to be made are calculated by estimating the exposure at default, the probability of default and the loss given default, which is based on the levels of recoveries, for all derivative products on any underlying, deposits and repurchase agreements at a legal entity level (all counterparties under the same master agreement) with which the Group has exposure.

Credit valuation adjustments ("CVA") and debit valuation adjustments ("DVA") are included in the valuation of derivatives, both assets and liabilities, to reflect the impact on the fair value of the counterparty's credit risk and the Group's own credit risk, respectively. The Group incorporates, in all exposures classified in any of the categories valued at fair value its valuation of both the counterparty's credit risk and the Group's own credit risk. In the trading portfolio, and in the specific case of derivatives, the credit risk is recognized through these adjustments.

As a general rule, the calculation of CVA is the sum of the positive expected exposure at date t, the probability of default between t-1 and t, and the LGD. Similarly, DVA is calculated as the sum of the negative expected exposure at date t, the probability of default of the group between t-1 and t, and the group's LGD. Both calculations are performed over the entire period of the potential exposure.

Calculation of the expected positive and negative exposure is performed through a Monte Carlo simulation of the market variables affecting all transactions pooled under the same master agreement (legal netting).

(m) Loan portfolio-

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

The Group classifies its portfolio under the following:

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 MXN, foreign currency, UDIs or multiples of the minimum wage (for its acronym in Spanish, "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 equity loans guaranteed by the home of the borrower and mortgage loans granted to former employees who rendered services to the Group.

c. Consumer: Direct loans, denominated in MXN, 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.

d. Restricted: The Group considers as restricted any asset for which there are circumstances that restrict its disposal and/or 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 Group's consolidated statement of financial position, loans considered as restricted will be grouped as performing or non-performing, 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 Group's consolidated statement of financial position.

Undrawn lines of credit are recorded in memorandum accounts under "Loan commitments."

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

The outstanding balance of the loan and related interest are classified in risk stages ranging from 1 to 3.

Stage 1 loan portfolio

Loans in which the risk has not increased significantly from their initial recognition to the date of the financial statements and that do not meet the conditions to be considered stage 2 or 3 in terms of this criterion. The portfolio associated with this stage of impairment is the loan portfolio that is less than 30 days past due.

Stage 2 loan portfolio

Loans that show a significant increase in risk from their initial recognition to the date of the financial statements in accordance with the provisions of the models for calculating the allowance for loan losses. The portfolio associated with this stage of impairment is more than 30 days past due and less than 90 days past due.

Stage 3 loan portfolio

Loans with credit impairment originated by the occurrence of one or more events that have a negative impact on expected future cash flows. The loan portfolio with 90 or more days past due is classified in this stage.

- Mortgage loans with periodic repayment of principal and interest, which are 90 or more days past due.

- Client checking accounts that do not have authorized credit line showing overdrafts will be reported as Stage 3 portfolio at the date of the overdraft.

- Borrowers declared bankrupt, except for those loans that continue to receive payments and that were granted for the purpose of maintaining the ordinary operation of the company and the necessary liquidity during the bankruptcy proceeding, in accordance with the provisions of Section VIII of Article 43 of the Commercial Bankruptcy Law, in accordance with the provisions of Article 75 in connection with Sections II and III of Article 224 of the Commercial Bankruptcy Law.

- Immediate collection documents referred to in Accounting Criterion B-1, "Cash and Cash Equivalents," of the Commission when not collected within the allotted period (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.

Loans classified as stage 3 that are restructured or renewed will remain within the same stage of impairment, provided there is no evidence of sustained payment.

Sustained payments

It is considered that there is sustained payment when the borrower shows compliance of payment without delay for the aggregate amount of principal and interest for three consecutive repayments of the loan with respect to repayments of less than or equal to 60 days, or two repayments with respect to loans with periods over 61 and less than 90 calendar days, and with respect to loans with repayments covering periods of more than 90 calendar days, one repayment.

When the repayment periods agreed in the restructuring or renewal are not homogeneous, the number of periods representing the longest term must be considered for purposes of crediting sustained payment.

For restructurings in which payment periodicity is modified to shorter periods, the number of repayments of the original loan schedule must be considered.

In the case of consolidated loans, if two or more loans have originated the transfer to a portfolio with stage 2 or stage 3 credit risk, in order to determine the required repayments, the original payment schedule of the loan the repayments of which are equivalent to the longest term must be taken into account.

In any case, in demonstrating that there is sustained payment, the entity must make available to the CNBV evidence that justifies that the borrower has the ability to pay at the time the restructuring or renewal is carried out in order to meet the new loan conditions.

The elements to be taken into account for the purposes of the preceding paragraph are at least the following: probability of default, guarantees granted to the restructured or renewed loan, the priority of payment with respect to other creditors and the liquidity of the borrower in view of the new financial structure of the financing.

Regarding loans with a single repayment 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 loan upon the occurrence of any of the events below:

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 was covered according to the payment plan for restructuring or renewal corresponding to a 90-day term.

Loans that are restructured or renewed on more than once, that have been agreed with a single repayment of principal at maturity, regardless of whether the interest payment is periodic or at maturity, will credit sustained payment of the loan when:

a) The borrower covers at least 20% of the outstanding principal on the date of the new restructuring or renewal;

b) The amount of interest accrued under the new restructuring or renewal payment scheme corresponding to a period of 90 days has been covered and at least said period has elapsed, and

c) The entity has elements that justify the borrower's ability to pay. In the case of commercial loans, such elements must be duly documented and included into the credit file.

Prepayment of restructured or renewed loans, other than those with a single principal repayment at maturity, regardless of whether interest is paid periodically or at maturity, is not considered a sustained payment. Such is the case of repayments of restructured or renewed loans that are repaid without having elapsed the calendar days equivalent to the required periods.

In any case, loans that, due to a restructuring or renewal, are transferred to a category with greater credit risk, must remain in said stage for a minimum of three months in order to prove sustained payment and consequently be transferred to the immediately following stage with lower credit risk, except with respect to restructured or renewed loans that have been granted for a term of less than or equal to six months and that are not consecutively restructured or renewed for the same term. The foregoing will not be applicable to loans with repayment of principal at maturity, regardless of whether the payment of interest is periodic or at maturity, in which case a term of 90 days will be applicable.

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.

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."

If the transaction generates 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 Group only derecognizes a financial asset when the related contractual rights expire or when the Group 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 Group 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 Group 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 carrying 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.

(n) Allowance for loan losses-

As of December 31, 2022, the Group recognizes allowance for loan losses based on the following:

i) Commercial loan portfolio-

Large Enterprises and Enterprises-

The commercial portfolio classified under "Enterprises" is comprised of Enterprises with annual net sales over MXN 130 million and USD 50 million and Enterprises with annual net sales over MXN 60 million and below MXN 130 million that belong to the same business group. Also, the commercial portfolio classified under "Large Enterprises" is comprised of Large Enterprises with annual net sales over USD 50 million. It excludes clients with Investment Projects (Specialized Lending) and Medium and Small Mortgage Promoters.

It should be noted that, within the Enterprises universe, Business/Corporate Credit Cards are considered, provided that it is demonstrated that the counterparty is a client with an Enterprise rating, their sales are, at all times, greater than or equal to MXN 60 million and less than USD 50 million dollars, and they belong to a business group.

Clients that make up the group of Large Promoters called G9 are excluded from the Promoter Profile, which, due to their business characteristics, sales volume, housing developments and size of their resources, mainly, are different from the common universe of promoters, and should be considered as clients with a corporate profile, as well as clients of PEMEX and CFE. The group of clients called Large G9 Promoters are qualified according to their annual sales volume by the corporate tools and are selected mainly for their business characteristics, sales volume, housing developments and size of their resources.

Pursuant to official communication 121-1/14591541/2022, dated January 10, 2022, the Commission authorized the implementation plan of the Internal Methodologies for reserves and allowances based on Mexican FRS C-16, to determine the allowance for loan losses by credit risk level for BBVA's six relevant portfolios as of January 2022, including the Enterprises and Large Enterprises portfolios. The foregoing, in accordance with the provisions of Article 139 Bis 3, section I, of the Regulations. Said methodology was estimated with information as of September 2019.

Calculation of the expected credit loss requires a temporary structure during the life of the transaction and is based on the following components, in accordance with the minimum requirements for own estimates of risk parameters provided for in Schedule 15 Bis of the Regulations:

- PD: An estimate of the likelihood of default over a given time horizon.

- LGD: An estimate of the loss arising in case a default. It is based on the difference between the contractual cash flows due and those that lender would expect to receive, including from any collateral.

- EAD: An estimate of exposure at a future date of default, taking into account expected changes in the exposure after the reporting date, including expected repayments and drawdowns on committed facilities (CCFs).

- Term to maturity.

- Discount rate: To discount an expected loss to present value at the reporting date using the annual interest rate of the transaction, which should be determined in accordance with the original terms and conditions of the contract.

The procedures for estimating the probability of default, loss given default and exposure at default, for appropriately assigning and modifying the level of credit risk of exposures are consistent and in accordance with the criteria for recognizing the level of credit risk of a borrower, in stages 1, 2 or 3, including prospective scenarios.

Expected credit losses will be assessed for one of the two time horizons, depending on whether the borrower's credit risk has increased significantly since origination. If it has increased (step 2), expected credit losses will be calculated over the life of the asset. If not, provisions will be based on the 12-month expected credit losses. Expected credit losses on impaired assets (step 3) will be expected credit losses over the life of the asset.

In accordance with the Regulations and since the Group applies internal reserve methodologies based on FRS C-16, it maintains as part of its credit risk policies the qualitative criteria to identify and categorize the loan portfolio, based on the increase in the level of credit risk. This criterion is applied from the time of origination and throughout the life of the loan, even if it has been renewed or restructured, allowing the portfolio to be classified by level of credit risk, in stage 1, stage 2 or stage 3. This is in addition to the quantitative criteria for default on payments of the portfolios, as defined in note 3 paragraph (m).

Small and medium-sized enterprises

Pursuant to official communication 121-1/14591541/2022, dated January 10, 2022, the Commission authorized the implementation plan of the Internal Methodologies for reserves and allowances based on Mexican FRS C-16, to determine the allowance for loan losses by credit risk level, as of January 2022 of the "Small and Medium-Sized Enterprises" portfolio. The foregoing, in accordance with the provisions of Article 139 Bis 3, Section I of the Regulations.

In November 2022, BBVA requested approval from the CNBV to update the Implementation Plan for the Consumer Non-Revolving (CNR) and Small and Medium-Sized Enterprises (SME) portfolios, to defer the determination of allowance for loan losses under Internal Reserve Methodologies under Mexican FRS C-16.

Therefore, as of December 31, 2022, the SME portfolio is rated under the standardized approach.

Commercial Loans other that for Large Enterprises and Enterprises-

The Group considers PD, LGD and EAD for rating the commercial loan portfolio other than the Large Enterprises and Enterprises groups, in accordance with the provisions of the Regulations.

I. The amount of the allowance for loan losses of each loan in stage 1 and 3 will be the result of applying the following equation:

$$Reserves\ Stage\ 1\ or\ 3_i = R_i = PD_I\ x\ \ LGD_I\ x\ EAD_i$$

Where:

$Reserves\ Stage\ 1\ or\ 3_i$	=	Amount of allowance for loan losses to be recorded for the i-th loan that is in stage 1 or 3, as applicable.
PD_I	=	Probability of Default of the i-th loan.
LGD_I	=	Severity of the Loss on the i-th loan.
EAD_i	=	Exposure to Default on the i-th loan.

II. For stage 2 loans, the allowance for the full life of loans will be estimated as follows:

a) For loans with periodic principal and interest payments and revolving loans:

$$Full\ Life\ Reserves_i = \frac{PD_i \times LGD_i \times EAD_i}{(1+r_i)} * \left[\frac{1-(1-PD_i)^n}{PD_i}\right] - \frac{PD_i \times LGD_i \times PAYMENT_i}{r_i(1+r_i)} * \left[\frac{1-(1-PD_i)^n}{PD_i}\right] + \frac{PD_i \times LGD_i \times PAYMENT_i}{r_i(r_i+PD_i)} * \left[1-\left(\frac{1-PD_i}{1+r_i}\right)^n\right]$$

b) For loans with a single payment at maturity of principal and interest or a single repayment of principal at maturity and periodic payment of interest:

$$Full\ Life\ Reserves_i = \frac{PD_i \times LGD_i \times EAD_i}{(r_i+PD_i)} * \left[1-\left(\frac{1-PD_i}{1+r_i}\right)^n\right]$$

Where:

$Full\ Life\ Reserves_i$	=	Amount of the estimate to be established for the i-th stage 2 loan.
PD_i	=	Probability of Default of the i-th loan.
LGD_i	=	Severity of the Loss on the i-th loan.
EAD_i		Exposure to Default on the i-th loan.
r_i		Annual interest rate of the i-th loan charged to client.
n		Remaining term of the i-th loan, number of years that, in accordance with the contract, remains to repay the loan at the portfolio rating date.
$PAYMENT_i$		Theoretical annual amortizable payment of the i-th loan, defined as:

$$PAYMENT_i = EAD_i \times (1 + r_i) * \frac{(1 - (1 + r_i)^{-1})}{(1 - (1 + r_i)^{-n})}$$

The amount of reserves for stage 2 loans will be the result of applying the following equation:

$$Reserves\ Stage\ 2_i = Max\ (Full\ Life\ Reserves_i, PD_I\ x\ \ LGD_I\ x\ EAD_i)$$

PD_i will be calculated according to the following equation:

$$PD_i = \frac{1}{1 + e^{-(500 - Total\ Credit\ Score_1)\ x\ \frac{1n(2)}{40}}}$$

For purposes of the foregoing:

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

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

Where:

Quantitative Credit Scorei $(QCSt_i)$	=	The score obtained for the i-th borrower when evaluating the risk factors according to the Regulations.
Qualitative Credit Scorei $(QCSl_i)$	=	The score obtained for the i-th borrower when evaluating the risk factors according to the Regulations.
α	=	The relative weight of the quantitative credit score stated in Schedules 21 or 22 of these Regulations, as applicable. established in Annexes 21 or 22 of these provisions, as applicable.

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 classified under Schedule 18, 19, 20 and 22

b. 55% for preferred positions classified under Schedule 21

c. 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.

d. 100%, for loans which are 18 months or more in arrears for the amount due and payable under the original terms.

The EAD_i will be determined based on the following:

I. For used balances of uncommitted credit lines 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 credit facilities that do not meet the requirements described in the preceding section:

a) For loans classified under Schedule 22 that have a drawn balance as of the rating date:

$$EAD_i = Max\left(S_i, S_i + \left(0.3824 \times \left(\frac{S_i}{Authorized\ Credit\ Line}\right)^{0.3362}\right) \times (Authorized\ Credit\ Line - S_i)\right)$$

If the facility does not have a drawn balance as of the rating date:

$$EAD_i = Max\left(S_i\ , 0.07\ \times\ (Authorized\ Credit\ Line)\right)$$

b) For loans classified under Schedule 21 that have a drawn balance as of the rating date:

$$EAD_i = Max\left(S_i, S_i + \left(0.2243 \times \left(\frac{S_i}{Authorized\ Credit\ Line}\right)^{0.3107}\right) \times (Authorized\ Credit\ Line - S_i)\right)$$

If the facility does not have a drawn balance as of the rating date:

$$EAD_i = Max(S_i, 0.07 \times (Authorized\ Credit\ Line))$$

Where:

S_i	=	The outstanding balance of the i-th 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 classification must not include uncollected accrued interest recognized in memorandum accounts on the statement of financial position for loans classified within non-performing portfolio.
$Authorized\ Credit\ Line$		The maximum authorized amount of the credit line at the classification date.

The Group 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 Regulations.

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

ii) Portfolio of States and their municipalities (governments)

For rating states and municipalities, the Group considers the PD, LGD and EAD factors under the Regulations, as follows:

I. The amount of allowance for loan losses of each loan in stage 1 and 3 shall be the result of using the following equation:

$$Reserves\ Stage\ 1\ or\ 3_i = R_i = PD_I\ x\ \ LGD_I\ x\ EAD_i$$

Where:

$Reserves\ Stage\ 1\ or\ 3_i$	=	Amount of allowance for loan losses to be recorded for the i-th loan that is in stage 1 or 3, as applicable.
PD_I	=	Probability of Default of the i-th loan.
LGD_I	=	Severity of the Loss on the i-th loan.
EAD_i	=	Exposure to Default on the i-th loan.

II. For stage 2 loans, the allowance for the full life of loans will be estimated as follows:

c) For loans with periodic principal and interest payments and revolving loans:

$$Full\ Life\ Reserves_i = \frac{PD_i\ \times\ LGD_i\ \times EAD_i}{(1+r_i)} * \left[\frac{1-(1-PD_i)^n}{PD_i}\right] - \frac{PD_i \times LGD_i \times PAYMENT_i}{r_i(1+r_i)} * \left[\frac{1-(1-PD_i)^n}{PD_i}\right] + \frac{PD_i \times LGD_i \times PAYMENT_i}{r_i(r_i+PD_i)} * \left[1-\left(\frac{1-PD_i}{1+r_i}\right)^n\right]$$

d) For loans with a single payment at maturity of principal and interest or a single repayment of principal at maturity and periodic payment of interest:

$$Full\ Life\ Reserves_i = \frac{PD_i\ \times\ LGD_i\ \times EAD_i}{(r_i+PD_i)} * \left[1-\left(\frac{1-PD_i}{1+r_i}\right)^n\right]$$

Where:

$Full\ Life\ Reserves_i$	=	Amount of the estimate to be established for the i-th stage 2 loan.
PD_i	=	Probability of Default of the i-th loan.
LGD_i	=	Severity of the Loss on the i-th loan.
EAD_i		Exposure to Default on the i-th loan.
r_i		Annual interest rate of the i-th loan charged to client.
n		Remaining term of the i-th loan, number of years that, in accordance with the contract, remains to repay the loan at the portfolio rating date.
$PAYMENT_i$		Theoretical annual amortizable payment of the i-th loan, defined as:

$$PAYMENT_i = EAD_i \times (1+r_i) * \frac{(1-(1+r_i)^{-1})}{(1-(1+r_i)^{-n})}$$

The amount of reserves for stage 2 loans will be the result of applying the following equation:

$$PAYMENT_i = EAD_i \times (1 + r_i) * \frac{(1 - (1 + r_i)^{-1})}{(1 - (1 + r_i)^{-n})}$$

PD_i will be calculated according to the following equation:

$$PD_i = \frac{1}{1 + e^{-(500 - Total\ Credit\ Score_1)\ x\ \frac{1n(2)}{40}}}$$

For purposes of the foregoing:

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

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

Where:

$QCSt_i$	=	Quantitative Credit Score = IA + IB + IC + ID + IE
$QCSl_i$	=	Qualitative Credit Score = IIA + IIB
IA	=	Current income to current expense.
IB	=	Public investment to total expenditures.
IC	=	Financing to total participations.
ID	=	Average days of delinquency with credit institutions.
IE	=	Percentage of balance without days in arrears with the Group in the last 7 months considering the month of calculation.
IIA	=	Strength and flexibility of the regulatory and institutional framework for budget approval and execution, as well as for the approval and imposition of local taxes.
IIB	=	Transparency in public finances and public debt.

With respect to loans to States and Municipalities, described in section I of Schedule 18, institutions must determine the allowances as the product of the percentage of reserves by the EAD_i. The above, regardless of the fact that institutions must estimate and report the calculation of the PD_i.

A) When the loan is Guaranteed State Debt, in accordance with the provisions of the Law of Financial Discipline for Federal Entities and Municipalities, the credit reserve will be 0.5% of the EAD_i.

B) When loans have as their primary source of payment a specific percentage of the General Participation Fund (*Fondo General de Participaciones*), Funds corresponding to Branch 28 or Federal Contribution Funds, including those that in addition to said primary source have as a subsidiary source of payment the borrower's own income or other types of resources that do not come from Federal Funds, its credit reserve will be

determined by applying the relevant percentage based on the debt service coverage ratio (DSCR) in accordance with the following table.

Range over DSCR	Percentage
3 < DSCR	0.0050
2 < DSCR <= 3	0.0066
1.5 < DSCR <= 2	0.0082
1 < DSCR <= 1.5	0.0107
0.75 < DSCR <= 1	0.0344
DSCR <= 0.75	0.0975

C) If the primary source of payment of the loan is the borrower's own income, the loan reserve will be the percentage that applies according to the DSCR in the following table:

Range over DSCR	Percentage
3 < DSCR	0.0064
2 < DSCR <= 3	0.0084
1.5 < DSCR <= 2	0.0105
1 < DSCR <= 1.5	0.0137
0.75 < DSCR <= 1	0.0493
DSCR <= 0.75	0.1242

The debt service coverage ratio is calculated as follows:

$$Debt\ service\ coverage\ ratio = \frac{PS}{SD}$$

Where:

PS = Estimate of the flow assigned as primary source of payment of the loan for the following 12 months from the rating date.

SD = Principal and interest payments to be made by the borrower during the following 12 months from the rating date.

Unsecured loans-

The LGD_i 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 loans which are 18 months or more in arrears for the amount due and payable under the original terms of the loan.

The EAD_i will be determined using the following equation:

I. For balances drawn on uncommitted lines of credit, which are unconditionally cancellable or, in practice, that allow for automatic cancellation at any time and without prior notice, the following shall be considered:

$$EAD_i = S_i$$

II. For credit facilities that do not meet the requirements described in the preceding section:

c. For loans rated under Schedule 22 with a drawn balance as of the rating date:

$$EAD_i = Max\left(S_i, S_i + \left(0.3824 \times \left(\frac{S_i}{Authorized\ Credit\ Line}\right)^{0.3362}\right) \times (Authorized\ Credit\ Line - S_i)\right)$$

If the facility does not have a drawn balance as of the rating date:

$$EAD_i = Max\left(S_i, 0.07 \times (Authorized\ Credit\ Line)\right)$$

d. For loans classified under Schedule 21 that have a drawn balance as of the rating date:

$$EAD_i = Max\left(S_i, S_i + \left(0.2243 \times \left(\frac{S_i}{Authorized\ Credit\ Line}\right)^{0.3107}\right) \times (Authorized\ Credit\ Line - S_i)\right)$$

If the facility does not have a drawn balance as of the rating date:

$$EAD_i = Max\left(S_i, 0.07 \times (Authorized\ Credit\ Line)\right)$$

Where:

S_i	=	The outstanding balance of the i-th 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 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 Group 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 accounting criteria.

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

Allowances for the commercial loan portfolio, established by the Group as a result of the loan rating, are classified according to the risk levels and percentages shown below:

Risk Level	Ranges of Percentage of Allowances		
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	Greater than 45.00%		

iii) Mortgage loan portfolio-

The portfolio classified as "Mortgage" is comprised of loans made to clients - individuals - for the acquisition, construction, remodeling or improvement of housing for purposes other than commercial speculation, and liquidity loans secured by the borrower's home, including loans made for such purposes to employees and former employees.

Pursuant to official communication 121-1/14591541/2022, dated January 10, 2022, the Commission authorized the implementation plan of the Internal Methodologies for reserves and allowances based on Mexican FRS C-16, to determine the allowance for loan losses by credit risk level for BBVA's six relevant portfolios as of January 2022, including the Mortgage portfolio. The foregoing, in accordance with the provisions of Article 139 Bis 3, section I, of the Regulations. Said methodology was estimated with information as of September 2019.

Calculation of the expected credit loss requires a temporary structure during the life of the transaction and is based on the following components, in accordance with the minimum requirements for own estimates of risk parameters provided for in Schedule 15 Bis:

- PD: An estimate of the likelihood of default over a given time horizon.
- LGD: An estimate of the loss arising in case a default. It is based on the difference between the contractual cash flows due and those that lender would expect to receive, including from any collateral.
- EAD: An estimate of exposure at a future date of default, taking into account expected changes in the exposure after the reporting date, including expected repayments and drawdowns on committed facilities (CCFs).
- Term to maturity.
- Discount rate: To discount an expected loss to present value at the reporting date using the annual interest rate of the transaction, which should be determined in accordance with the original terms and conditions of the contract.
- Prepayment rates: consider the prepayment amount in the contractual future cash flows of the loans.

The procedures for estimating the probability of default, loss given default and exposure at default, for appropriately assigning and modifying the level of credit risk of exposures are consistent and in accordance with the criteria for recognizing the level of credit risk of a borrower, in stages 1, 2 or 3, including prospective scenarios.

Expected credit losses will be assessed for one of the two time horizons, depending on whether the borrower's credit risk has increased significantly since origination. If it has increased (step 2), expected credit losses will be calculated over the life of the asset. If not, provisions will be based on the 12-month expected credit losses. Expected credit losses on impaired assets (step 3) will be expected credit losses over the life of the asset.

iv) Non-revolving consumer portfolio

Pursuant to official communication 121-1/14591541/2022, dated January 10, 2022, the Commission authorized the implementation plan of the Internal Methodologies for reserves and allowances based on Mexican FRS C-16, to determine the allowance for loan losses by credit risk level as of January 2022 of the "Consumer Non-Revolving" portfolio. The foregoing, in accordance with the provisions of Article 139 Bis 3, Section I of the Regulations.

In November 2022, BBVA requested approval from the CNBV to update the Implementation Plan for the Consumer Non-Revolving (CNR) and Small and Medium-Sized Enterprises (SME) portfolios, to defer the determination of allowance for loan losses pursuant to Internal Reserve Methodologies under Mexican FRS C-16 "Impairment of financial instruments receivable."

Therefore, as of December 31, 2022, the CNR portfolio is rated under the standard approach.

Pursuant to Resolution issued by the Commission on January 6, 2017, the Group determines reserves under this methodology, which considers PD, LGD and EAD factors, as described below follows:

The amount of the allowance for loan losses of each loan shall be the result of applying the following equation:

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

Where:

R_i	=	Amount of the allowance for loan losses to be created for the i-th loan.
PD_i^x	=	Probability of default of the i-th loan, classified as ABCD (B), automobile (A), payroll (N), personal (P), other (O).
LGD_i^x	=	Loss Given Default of the i-th loan, classified as ABCD (B), automobile (A), payroll (N), personal (P), other (O).
EAD_i^x	=	Exposure to Default of the i-th 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 Group 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 Regulations for each loan type, borrower's payment behavior variables within the Group 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 SP percentages in the observed delays at the rating date.

– EAD = corresponds to the principal and interest balance of each non-revolving consumer loan upon the portfolio rating.

Allowances for the consumer portfolio that do not include credit card transactions, established by the Group as a result of the loan rating, are classified according to the risk levels and percentages shown below:

Risk Level	Ranges of Percentage of Allowances		
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%

v) Revolving consumer portfolio (credit cards)-

The commercial portfolio classified as "Credit Card" is identified through transactions related to loans made to clients -individuals- who have been authorized a revolving facility for personal use.

Pursuant to official communication 121-1/14591541/2022, dated January 10, 2022, the Commission authorized the implementation plan of the Internal Methodologies for reserves and allowances based on Mexican FRS C-16, to determine the allowance for loan losses by credit risk level for BBVA's six relevant portfolios as of January 2022, including the Credit Card portfolio. The foregoing, in accordance with the provisions of Article 139 Bis 3, section I, of the Regulations. Said methodology was estimated with information as of September 2019.

Calculation of the expected credit loss requires a temporary structure during the life of the transaction and is based on the following components, in accordance with the minimum requirements for own estimates of risk parameters provided for in Schedule 15 Bis:

- PD: An estimate of the likelihood of default over a given time horizon.

- LGD: An estimate of the loss arising in case a default. It is based on the difference between the contractual cash flows due and those that lender would expect to receive, including from any collateral.

- EAD: An estimate of exposure at a future date of default, taking into account expected changes in the exposure after the reporting date, including expected repayments and drawdowns on committed facilities (CCFs).

- Term to maturity.

- Discount rate: To discount an expected loss to present value at the reporting date using the annual interest rate of the transaction, which should be determined in accordance with the original terms and conditions of the contract.

The procedures for estimating the probability of default, loss given default and exposure at default, for appropriately assigning and modifying the level of credit risk of exposures are consistent and in accordance with the criteria for recognizing the level of credit risk of a borrower, in stages 1, 2 or 3, including prospective scenarios.

Expected credit losses will be assessed for one of the two time horizons, depending on whether the borrower's credit risk has increased significantly since origination. If it has increased (step 2), expected credit losses will be calculated over the life of the asset. If not, provisions will be based on the 12-month expected credit losses. Expected credit losses on impaired assets (step 3) will be expected credit losses over the life of the asset.

Until December 31, 2022, the Group recognized allowance for loan losses based on the following:

i) Commercial loan portfolio

Large enterprises and enterprises-

The commercial portfolio classified under "Large Enterprises" (annual net sales over USD 50 million) and "Enterprises" (annual net sales over MXN 60 million and below USD 50 million except for the "plus" SME segment, made up 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 to the Group 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 121/116844/2014 dated April 21, 2014, which are reviewed annually according to the Regulations.

Also, 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 Group 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), which is estimated based on scores of a rating model pursuant to a master scale calculated using the companies' financial information; for a non-performing portfolio, this variable is assumed to be 100%;

Loss Given Default (LGD), which is estimated through discounting the projected cash flows to be collected, adjusted based on any guarantees and the period of time during which the borrower has been non-compliant; and

Exposure at Default (EAD), which is determined based on the amount of the loan's drawn-down balance at the end of each month, plus a percentage on the undrawn balance of the loan.

Commercial Loans other that for Large Enterprises and Enterprises-

For rating the commercial portfolio, other than the portfolio corresponding to Large Enterprises and Enterprises, the Group considers the PD, LGD and EAD factors pursuant to the Regulations as follows:

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

$$R_i = PD_i \; x \; LGD_i \; x \; EAD_i$$

Where:

R_i	=	Amount of the allowance for loan losses to be created for the i-th loan.
PD_i	=	Probability of Default of the i-th loan.
LGD_i	=	Severity of the Loss on the i-th loan.
EAD_i	=	Exposure to Default on the i-th loan.

PD_i will be calculated according to the following equation:

$$PD_i = \frac{1}{1 + e^{-(500 - \text{Total Credit Score}_1) \; x \; \frac{1n(2)}{40}}}$$

For purposes of the foregoing:

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

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

Where:

Quantitative Credit Scorei $(QCSt_i)$	=	The score obtained for the i-th borrower when evaluating the risk factors according to the Regulations.
Qualitative Credit Scorei $(QCSl_i)$	=	The score obtained for the i-th borrower when evaluating the risk factors according to the Regulations.
α	=	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 original terms.

The EAD_i will be determined based on the following:

I. For used balances of uncommitted credit lines 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:

$$EAD_i = S_i * Max\left\{\left(\frac{S_i}{Authorized\ Credit\ Line}\right)^{-05794}. 100\%\right\}$$

Where:

S_i	=	The outstanding balance of the i-th 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 classification must not include uncollected accrued interest recognized in memorandum accounts on the statement of financial position for loans classified within non-performing portfolio.
$Authorized\ Credit\ Line$		The maximum authorized amount of the credit line at the classification date.

The Group 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 Regulations.

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

ii) Portfolio of States and their municipalities (governments)

For rating states and municipalities, the Group considers the PD, LGD and EAD factors under the Regulations, as follows:

The amount of allowance for loan losses of each loan shall be the result of using the following equation:

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

Where:

R_i	=	Amount of the allowance for loan losses to be created for the i-th loan.
PD_i	=	Probability of Default of the i-th loan.
LGD_i	=	Severity of the Loss on the i-th loan.
EAD_i	=	Exposure to Default on the i-th loan.

PD_i will be calculated according to the following equation:

$$PD_i = \frac{1}{1 + e^{-(500 - \text{Total Credit Score}_1)\ x\ \frac{1n(2)}{40}}}$$

For purposes of the foregoing:

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

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

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 + % of on time payments with banking institutions + % 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 plus debt service to adjusted total revenues plus short-term debt to total debt plus total revenues to current expense plus investment to total revenues plus proprietary revenues to total revenues.
IIA	=	Local unemployment rate plus presence of financial services of regulated entities.
IIB	=	Contingent obligations derived from retirement benefits to adjusted total revenues plus operating balance sheet to local Gross Domestic Product plus level and efficiency of collections plus robustness and flexibility of the regulatory and institutional framework for budget approval and execution plus robustness and flexibility of the regulatory and institutional framework for approval and imposition of local taxes plus transparency in public finances and public debt plus issuance of outstanding debt in the stock market.

Unsecured loans-

The LGD_i 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 loans which are 18 months or more in arrears for the amount due and payable under the original terms of the loan.

The EAD_i will be determined using the following equation:

$$EAD_i = S_i * Max\left\{\left(\frac{S_i}{Authorized\ Credit\ Line}\right)^{-05794}, 100\%\right\}$$

Where:

S_i = The outstanding balance of the i-th 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 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 Group 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 accounting criteria.

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

Allowances for the commercial loan portfolio, established by the Group as a result of the loan rating, are classified according to the risk levels and percentages shown below:

Risk Level	Ranges of Percentage of Allowances		
A-1	0.000%	a	0.90%
A-2	0.901%	a	1.50%
B-1	1.501%	a	2.00%
B-2	2.001%	a	2.50%
B-3	2.501%	a	5.00%
C-1	5.001%	a	10.00%
C-2	10.001%	a	15.50%
D	15.501%	a	45.00%
E	Greater than 45.00%		

iii) Mortgage loan portfolio-

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

Also, pursuant to official communication 121-1/074/2020 dated August 14, 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 Group as of August 2020 for the housing mortgage portfolio groups.

For rating mortgage loan portfolio, the Group 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 collateral, product and time of default by borrower.

– EAD - this variable is determined by considering the amount of the loan balance drawn down at the end of each month.

Allowances for the mortgage portfolio, established by the Group as a result of the loan rating, are classified according to the risk levels and percentages shown below:

Risk Level	Ranges of Percentage of Allowances		
A-1	0.000%	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 portfolio-

Pursuant to Resolution issued by the Commission on January 6, 2017, the Group determines reserves under this methodology, which considers PD, LGD and EAD factors, as described below follows:

The amount of the allowance for loan losses of each loan shall be the result of applying the following equation:

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

Where:

R_i	=	Amount of the allowance for loan losses to be created for the i-th loan.
PD_i^x	=	Probability of default of the i-th loan, classified as ABCD (B), automobile (A), payroll (N), personal (P), other (O).
LGD_i^x	=	Loss Given Default of the i-th loan, classified as ABCD (B), automobile (A), payroll (N), personal (P), other (O).
EAD_i^x	=	Exposure to Default of the i-th 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 Group 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 Regulations for each loan type, borrower's payment behavior variables within the Group 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 SP percentages in the observed delays at the rating date.

- EAD = corresponds to the principal and interest balance of each non-revolving consumer loan upon the portfolio rating.

Allowances for the consumer portfolio that do not include credit card transactions, established by the Group as a result of the loan rating, are classified according to the risk levels and percentages shown below:

Risk Level	Ranges of Percentage of Allowances		
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%

v) Consumer credit card loan portfolio-

The Commission approved the Group's request to apply an internal allowance for loan losses credit card rating model with advanced approach pursuant to official communication 111-1/69930/2009 on June 22, 2009. Also, pursuant to official communication 121-1/1065/2019 dated June 17, 2019, the Commission approved the update of the parameters that considers said model as the use of historical information until 2017, which parameters have been applied by the Group 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 by said model, with historical information up to 2018, parameters that have been applied by the Bank from October 2020.

For rating revolving consumer portfolio, the Group considers an expected loss model for the next 12 months according to the following:

- PI = it is estimated based on scores allocated, considering the admission tool or credit behavior (scoring model), 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 collateral and time of default by borrower.

- EAD = this variable is determined by considering the amount of the loan balance drawn down at the end of each month, plus a percentage of the undrawn balance of the loan.

Allowances for the credit card portfolio, established by the Group as a result of the loan rating, are classified according to the risk levels and percentages shown below:

Risk Level	Ranges of Percentage of Allowances		
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	Greater than 75.01%		

vi) Restructuring and renewal processes-

A restructuring process is a transaction derived from any of the following situations:

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:

- Change of interest rate for the remainder of the term of the loan;

- Change of currency or account unit, or

- Granting 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 date on which the agreements are amended, indicate payment compliance for the full amount due of 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 that extends the term of the loan during or upon maturity or when the loan is paid at any time by using the proceeds generated by another loan incurred with the same entity in which one of the parties is the same debtor or another person with equity shareholding relationships that constitute joint risk. A loan is not considered to be renewed when borrowings are made during the term of a pre-established credit facility.

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.

Performing 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 performing 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.

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 satisfied, 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, that is, the forgiven amount of the loan repayment in part or in full, are recorded with a charge 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 made 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 statement of financial position, 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 making 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 pursuant to the Regulations shall be recognized in the results of the year within the heading of allowance for loan losses.

When the balance of the allowance for loan losses has exceeded the amount required pursuant to the Regulations, the differential must be canceled in the period in which said changes occur against the results of the year, affecting the same item that originated it, that is, the allowance for loan losses.

(o) Securitization with transfer of ownership-

By securitizing the mortgage loan portfolio with transfer of ownership, the Group (the "Transferor") transfers the financial assets through a securitization vehicle (the "Trust"), to enable the latter to issue securities through an intermediary (the "Institution") to be placed among the general investing public, which represent the right to the returns or the proceeds from the securitized financial asset, and as consideration the Transferor receives cash and a certificate 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 Group, 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 as of the authorization date; such program is revolving.

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

- The Group has tools to measure and quantify the impact of securitized transactions on the statement of financial position and consolidated comprehensive income based on the cost of funding, release of capital, reserves and liquidity levels when structuring issuances and during the life thereof.

- The valuation system measures the follow-up of certificate performance and the subordinated portions recorded by the Financial Group 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 Group'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 2022, trust 881 was extinguished. As of December 31, 2022, there are no securitization trusts in the Group.

The characteristics of securitization contracts are detailed in Note 12.

(p) Receivables from insurance and bonding companies

Premiums receivables represent balances of premiums which age is lower than the agreed term or than 45 days, according to the provisions of the CNSF. If said age is exceeded, they are written-off against net income.

(q) Other accounts receivable, net-

The Group's sundry debtors that are not recovered within 90 or 60 days after their initial recording, depending on whether debtors are identified or not, respectively, are 100% reserved against results for the year in accordance with the practical solution stated in FRS C-16 "Impairment of financial instruments receivable."

Tax credit balances and creditable value added taxes will not be considered an allowance for loan losses.

Interest originated from loans to officers and employees will be presented in the statement of comprehensive income under other operating income (expense).

(r) Net foreclosed assets or received through payment in kind-

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 must be recorded on the date on which the foreclosure ruling is issued and final.

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

The recognition value of the foreclosed assets will be:

a) the lower of the gross carrying amount of the asset giving rise to the foreclosure and the net realizable value of the assets received, when the entity's intention is to sell those assets to recover the amount receivable; or

b) the lower of the gross carrying amount of the asset giving rise to the foreclosure or the fair value of the asset received, when the entity's intention is to use the foreclosed asset for its activities.

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

The difference arising from the recording of the asset and the derecognition of the portfolio and allowance associated with the loan is recognized in income as other operating income (expense).

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 heading "Other operating income (expenses)."

Considering the foregoing, and in observance of the Regulations, the determination of the allowances for personal or real estate 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 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%

Allowance for real estate property	
Time elapsed as of repossession or payment in kind (months)	Allowance percentage
Up to 12	-%
More than 12 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%

(s) Property, plant and equipment, net-

Are recorded at acquisition cost. Assets acquired prior to December 31, 2007 were restated by applying factors derived from UDI up to that date. 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, using the following rates:

Real estate	2.50%
Construction	1.30%
Construction components:	
Elevators	3.30%
Power plants	2.80%
Pipelines	2.80%
Air conditioners	2.80%
Computer equipment	25.00%
ATMs	12.50%
Furniture and equipment	10.00%
Vehicles	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 estimate is recognized initially recorded on a prospective basis.

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

(t) Leases-

The Group assesses whether a contract is, or contains, a lease contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in FRS D-5 "Leases."

The Group recognizes a right-of-use asset and a lease liability on the lease inception date.

The right-of-use asset is initially measured at cost, comprising the initial amount of the lease liability adjusted for any lease payments made on or before the inception date, plus initial direct costs incurred, less lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from inception date to the end of the lease, unless the lease transfers ownership of the underlying asset to the Group at the end of the lease or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as property and equipment. Depreciation of the asset is recorded in income under depreciation.

The right-of-use asset is reduced periodically for impairment losses, if applicable, and adjusted for certain revaluations of the lease liability such as changes in the amount of rent due to inflation adjustment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate embedded in the lease or, if that rate cannot be readily determined, the incremental financing rate of the Group or the risk-free rate determined with reference to the term of the lease.

The Group has defined a homogeneous mechanism to determine the Unsecured discount rate according to the financing costs in each geography, with respect to the remaining term of each commitment and integrating the liquidity risk to reflect the terms of the lease (such as the lease term and currency in which payments are denominated) and the type of asset leased. This is because the cost is not clearly expressed, nor directly by the tenants, thus avoiding subjective differences in determination.

The lease payments included in the valuation of the lease liability comprise the following:

- fixed payments, including fixed payments in substance;
- variable lease payments that depend on an index or rate, initially valued using the index or rate at the commencement date;
- amounts expected to be paid under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option and penalties for early termination of a lease unless the Institution is reasonably certain not to terminate prematurely.

The lease liability is valued at amortized cost using the effective interest method, and is subsequently revalued according to the following conditions:

- there is a change in future lease payments arising from a change in an index or rate;
- there is a change in the Group's estimate of the amount expected to be paid under a residual value guarantee;
- if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or
- if there is a fixed payment in substance of modified lease.

When the lease liability has been revalued in accordance with the foregoing, an adjustment is made to the book value of the right-of-use asset, or it is recorded in income if the book value of the right-of-use asset has been reduced to zero.

According to the negotiations with lessors, the Group can make advance rent payments for one, two and up to three years, which reduce the balance of the lease liability according to the periodicity of the payment.

Short-term leases and leases of low-value assets

The Group has decided not to recognize right-of-use assets and lease liabilities, lease liabilities for leases of low-value assets and short-term leases, including the lease of branches and offices.

The Group recognizes the lease payments associated with these leases as a straight-line expense over the lease term.

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

The Group periodically tests the net book value of long-lived assets to determine whether there is any indication that such value exceeds its recovery value. The recovery value represents the amount of potential net income reasonably expected to be obtained as a result of the use or realization of such assets.

If it is determined that net book value exceeds recovery value, the Group 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 book value or realizable value. The assets and liabilities of a group classified as available-for-sale are shown separately in the consolidated statement of financial position.

(v) Equity investments-

Are represented by those equity investments made by the Group 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 for 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.

(w) Goodwill-

Goodwill recognized in a business acquisition represents the future economic benefits arising from assets acquired in a business acquisition that are not individually identified and separately recognized, which is evaluated following the provisions of FRS C-15 "Impairment in long-lived assets," subjecting it to impairment tests annually and when signs of impairment appear.

(x) Income tax and employee profit-sharing-

Income tax and profit-sharing payable for the year are determined in conformity with the tax regulations in effect.

Deferred income tax and profit-sharing are accounted for under the asset and liability method.

Deferred income tax and profit-sharing 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 income tax and profit-sharing 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 income tax and profit-sharing 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 income tax and profit-sharing, 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.

(y) Advance payments and other assets and intangibles

Advanced payments and other assets that include other disbursements made in advance for expenses and fees for $3,712.

Intangibles are made up of software and computer developments, they are originally recorded at the value disbursed and the amortization of those with a defined life is calculated in a straight line at a rate of 20%. As of December 31, 2022, the amount amounts to $4,699.

(z) Traditional deposits -

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, withdrawable certificates of deposit on pre-determined days, bank acceptances and promissory notes with return payable at maturity captured from the general public and through money market transactions, the latter referring to term deposits made with other intermediaries. financial institutions, as well as treasuries of companies and government entities.

c. Negotiable instruments issued. Made up of, among others, bank bonds and stock certificates.

The Group, when calculating the effective interest rate, estimates the expected cash flows considering all the contractual terms of the Financial Instrument payable (such as prepayment, extension, early repayment and other similar options). The calculation includes all fess and other charges paid or received between the parties to the contract that are part of the effective interest rate, such as interest, fess, commissions and other items paid in advance, as well as transaction costs and all other premiums or discounts.

d. Global deposit account without transactions. Includes the principal and interest of the deposit-taking instruments that do not have a maturity date, or if they have a maturity date, are automatically renewed, and 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 (UMAS, from its Spanish acronym), they will be forwarded to public welfare, the Group 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 results 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.

Valuation of the traditional deposits is at amortized cost through the effective interest rate.

(aa) 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." Valuation is at amortized cost through the effective interest rate.

(ab) Employee benefits-

Short-term direct benefits

Short-term direct employee benefits are recognized in the consolidated results of the period as the services rendered are accrued. A liability is recognized for the amount expected to be paid if the Group 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 Group's net obligation regarding direct long-term benefits the Group is expected to pay after 12 months from the date of the most recent consolidated statement of financial position 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 Group 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 Group'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 Group, 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 Group 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.

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.

(ac) Technical reserves -

The Group creates and measures technical reserves in accordance with the terms and provisions established by the Law of Insurance and Bonding Institutions and with the general rules issued by the CNSF in Title 5 of the Insurance regulations.

The technical reserves are established and measured in relation to all insurance and reinsurance obligations that the Group has assumed before the insured and beneficiaries of insurance and reinsurance contracts, the administration expenses, as well as the acquisition cost assumed in relation thereto.

To create and assess technical reserves, actuarial methods based on the application of actuarial practice standards indicated by the CNSF through general regulations, are used, and considering the information available in the financial markets, as well as the information available on technical insurance and reinsurance risks. The valuation of these reserves is assessed and validated by an independent actuary registered with the CNSF.

Regarding the technical reserves related to catastrophic risks and other reserves that the CNSF determined in accordance with the Law, the Group used the actuarial methods of creation and measurement established by the CNSF through general regulations.

The most significant aspects of their calculation and accounting are as follows:

i) Reserve for current risks –

The Group registered with the CNSF the technical notes and the actuarial methods used for creating and measuring the current risk reserve.

The purpose of this reserve is to cover the expected value of future obligations (best estimate), from the payment of claims, benefits, acquisition and administration expenses, as well as any other future obligation derived from the insurance contracts, plus a risk margin.

The best estimate will be equal to the expected value of the future cash flows, considering income and expenses, of obligations, understood as the weighted average by probability of these cash flows, considering the temporary value of money based on the curves of market-risk free interest rate for each currency or monetary unit provided by the independent price vendors, as of the valuation date.

The hypothesis and procedures with which the future cash flows of obligations are determined, based on which the better estimate will be obtained, were defined by the Group in the method recorded for the calculation of the best estimate. For purposes of calculating the future cash flows of revenues, the premiums that upon valuation are overdue and outstanding are not considered, nor are the fractional payments accounted for in "Insurance premium receivable" in the consolidated statement of financial position.

Special mathematical reserve for pensions has the purpose of setting aside any required resources for the Group to face potential increases in the survival indexes of insured population.

Reserve for pension additional benefits has the purpose of setting aside any required resources for the Group to face future rents of additional benefits offered to its pensioners. The Group registered before the CNSF the technical notes and actuarial methods used to set up and value this reserve.

Multiannual insurance–

In the case of multiannual policies, the reserve for current risks is the best estimate of the future obligations for the year of validity concerned, plus the gross premium corresponding to future cumulative annuities including the expected return of such annuities, during the validity of the policy and the risk margin. The acquisition cost shall be deduced from the premiums corresponding to future annuities and, if applicable, for accounting effects, shall be recorded at the date of issuance separately from the reserve.

The Group considers as multiannual policies, those insurance contracts whose lifetime is more than one year and except those long-term life insurance or insurance with contingent future premiums and their devolution is not anticipated at the time of extinction of the risk.

Catastrophic risk insurance–

The Group determines the balance of reserve for current risks of the coverage for earthquake, hurricane and other hydrometeorology risks, based on the non-accrued annual risk premium, and applying the technical basis included in the Insurance regulations.

In the case of policies including risks which, because of their characteristics, cannot be valued on the basis of these technical criteria, mainly reinsurance taken abroad or covered goods located overseas, the reserve for current risks is calculated as the non-accrued part of the retained risk premium, the premium being set as 35% of the issues premiums of each of the policies effective at the date of valuation.

Risk margin–

This is calculated by determining the net cost of capital corresponding to the Own Admissible Funds required to support the Solvency Capital Requirement (SCR), necessary to meet the Group's insurance and reinsurance obligations for the duration of the covered risk period. For purposes of valuation of the current risk reserve, the SCR obtained on September 30, 2021. If there are relevant increases or decreases in the amount of the Group's obligations as of the report date, the Group makes adjustments to this risk margin, which allows to recognize the increase or decrease the margin may have from the situations mentioned. In these cases, the Insurance Commission is informed of the adjustment made and the procedures used to make this adjustment.

Risk margin is determined for each insurance line and type, according to the term and currency considered in calculating the best estimate of the corresponding retained insurance obligation.

The net capital cost rate used to calculate the risk margin is 10%, equivalent to the additional interest rate, in relation to the market-risk free interest rate that an insurance institution would require to cover the capital cost demanded to maintain the amount of Own Admissible Funds supporting the corresponding SCR.

ii) Outstanding claims provision–

The establishment, increase, valuation and recording of the outstanding claims provision is made through estimating obligations using the actuarial methods that the Group has registered for such purposes with the CNSF.

The purpose of this provision is to cover the expected value of accidents, benefits, guaranteed values or dividends, once the contingency provided for in the insurance contract occurs, plus a risk margin.

The amount of the outstanding claims provision will be equal to the sum of the best estimate and of a risk margin, which are calculated separately and in terms of Title 5 of the Insurance regulations.

This reserve includes the following:

Outstanding claims provision for claims and other obligations of known amount–

– These are the outstanding obligations at closing of the period from claims reported, past due rents, guaranteed values and dividends accrued, among others, whose amount payable is determined upon valuation and is not likely to have adjustments in the future, the best estimate, for purposes of establishing this reserve is the amount corresponding to each one of the obligations known upon valuation.

For a future obligation payable in installments, the current value of future payment flows is estimated, discounted using the market-risk free interest rate curves for each currency or monetary unit, plus the risk margin calculated according to the provisions in force.

In case of reinsurance ceded operations, the corresponding recovery is recorded simultaneously.

Outstanding claims provision for claims incurred but not reported and adjustment expenses–

– These are the obligations that arise from claims that having occurred as of the valuation date, have not yet reported or have not been completely reported, as well as the adjustment, salvage and recovery expenses. The reserve upon valuation is determined as the best estimate of future obligations, brought to the present value using discount rates corresponding to the market-risk free interest rate curves for each currency or monetary unit, plus the risk margin calculated according to the provisions in force. In case of reinsurance ceded operations, the corresponding recovery is recorded simultaneously.

For purposes of calculating the reserve, a claim is defined as have not been completely reported when having occurred on dates prior to valuation of such accident, future claims or adjustments in addition to the estimates initially made, may derive.

Risk margin–

This is calculated by determining the net cost of capital corresponding to the Own Admissible Funds required to support the Solvency Capital Requirement (SCR), necessary to meet the Group's insurance and reinsurance obligations for the duration of the covered risk period. For purposes of valuation of the current risk reserve, the SCR obtained on September 30, 2021. If there are relevant increases or decreases in the amount of the Group's obligations as of the report date, the Group makes adjustments to this risk margin, which allows to recognize the increase or decrease the margin may have from the situations mentioned. In these cases, the CNSF is informed of the adjustment made and the procedures used to make this adjustment. The risk margin is determined according to the term and currency considered in calculating the best estimate of the corresponding insurance obligation.

The net capital cost rate used to calculate the risk margin is 10%, equivalent to the additional interest rate, in relation to the market-risk free interest rate that an insurance institution would require to cover the capital cost demanded to maintain the amount of Own Admissible Funds supporting the corresponding SCR.

Reserve for pending obligations for administration of overdue payments and benefits -

It corresponds to the administration of the sums entrusted by the insured or their beneficiaries to the Group for endowments, the best estimate of future obligations with which the reserve is created, it is the known amount of each of said obligations and, if any, the yields to be accredited to said amounts.

iii) Catastrophic risk insurance–

Earthquake and/or volcanic eruption coverage–

The purpose of this reserve is to cover the maximum likely loss of the Group in connection with the occurrence of catastrophic casualties in the underwritten obligations related to earthquake and volcanic eruption events. The reserve is cumulative and may only be affected in the event of casualties, and under certain situations included in the Law, with the CNSF prior approval. Increases to the reserve require the release of the current risk reserve for the earthquake insurance line and the capitalization of financial income. The balance of this reserve has a limit, determined by the technical procedure established in the rules issued by the CNSF.

Hurricane and other hydrometeorology risks–

The purpose of this reserve is to cover the maximum likely loss of the Group in connection with the occurrence of catastrophic casualties in the underwritten obligations related to hurricane and other hydrometeorology risk insurance. The reserve is cumulative and may only be affected in the event of casualties, and under certain situations included in the Law, with the CNSF prior approval. Increases to the reserve require the release of the current risk reserve for the hurricane and other hydrometeorology risks insurance line and the capitalization of financial income. The balance of this reserve has a limit, determined by the technical procedure established in the rules issued by the CNSF.

iv) Reserve for contractual obligations–

This reserve comprises the annuities to pensioners or beneficiaries, which claim period has expired but they have not been claimed and there is no evidence of their death or lost eligibility, respectively.

v) Contingency reserve–

The funds of this reserve are intended for facing an adverse deviation in the obligations derived from the demographic hypotheses used in determining the pension amounts, which translates into excess obligations as a result of a change in the mortality rate provided for by the adopted demographic table.

vi) Reserve for investment fluctuations–

Its purpose is assisting the institutions faced with possible variants in their investment yields. It is comprised by a portion of the financial yield derived from the difference between the investment yields of the institutions and the minimum yields credited to their technical reserves, without the balance exceeding the 50% of the gross solvency requirement, determined in provision 5.11.6 of the Insurance regulations.

(ad) Reinsurance –

Current

Transactions arising from reinsurance contracts, both ceded and inwards entered into by the Group, are shown under heading "Accounts receivable to reinsurers and bonding reinsurers" in the consolidated statement of financial position; for presentation purposes, the credit balances by reinsurers company are reclassified to the corresponding heading under liabilities.

Reinsurance assumed

Transaction arising from reinsurance assumed are accounted for depending on the statements of account received from cedants, which in general are prepared monthly, an aspect that causes the deferral of a month in the recording of premiums, losses, commissions, etc.

Reinsurance ceded

The Group limits the amount of its liability for risks assumed through the distribution with reinsurers companies, through automatic and facultative contracts, ceding to such reinsurance a portion of the premium.

The Group has a limited retention capacity in all lines of insurance and contracts stop-loss coverage, that basically cover life, accidents and casualty transactions.

Reinsurance recoverable amounts

The Group registers the participation of reinsurers in the current risk reserves and for obligations not yet complied with for incurred but not reported losses and adjustment expenses allocated to the loss, as well as the expected amount of future obligations arising from reported losses.

The Group's management determines the estimate of the recoverable amounts for the participation of the reinsurers in the reserves mentioned in the preceding paragraph, considering the temporary differences between reinsurance recoveries and direct payments and the likelihood of recovery, as well as the expected loss from noncompliance of the counterparty. Methodologies for calculation of this estimate are registered with the CNSF and the effect is recognized in the consolidated income statement for the year.

Pursuant to the CNSF regulations, recoverable amounts from reinsurance contracts with counterparties that do not have an authorized register, cannot cover the Investment Base and cannot be part of the Acceptable Own Funds.

(ae) Provisions -

The Group has as a general parameter that provisions are recognized when it has 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.

The accounting treatment of an item as a provision or as a contingent liability depends on the degree of uncertainty of the future outflow of economic resources to fulfill an obligation or, in the case of contingent assets, the uncertainty of the receipt of economic benefits for recover the asset. Therefore, the uncertainty levels defined in FRS A-1 as probable, possible and remote are the basis for accounting recognition.

Finally, these long-term provisions are recognized at present value using the internal deposit rate.

(af) 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 for the year.

Gain (loss) on foreign currency purchase-sale transactions originates from the difference between the exchange rates used to buy or sell foreign currency, including adjustment to the final position, valued at the exchange rate referred to in the previous paragraph.

(ag) Financial margin-

The Group's financial margin consists of the difference resulting from interest income less interest expense.

Interest income-

Interest income comprise returns generated by the loan portfolio, depending on the terms established in agreements entered into with the borrowers and agreed upon interest rates, financial income accrued in financial leasing, financial factoring, discount and assignment of credit rights, amortization of interest collected in advance, as well as premiums and interest on deposits in financial institutions, shorter-term interbank loans or equal to three business days, margin accounts, investments in financial instruments, repurchase agreements and securities loans, the accrual of fees and commissions charged for the initial granting of loan, dividends from capital financial instruments; as well as premiums for debt placement.

Similarly, valuation adjustments derived from items denominated in investment units (UDIS) or in some other general price index, the effect of credit valuation in VSM or UMA, as well as the exchange profit are considered interest income, provided said items come from positions related to income or expenses that are part of the financial margin.

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

Fees charged for loan origination are recorded as deferred revenues under "Deferred credits and prepayments," of the consolidated statement of financial position, which 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.

Interest expense-

Interest expense is comprised of premiums, bank deposits, 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. In addition to expenses from hedging transactions and trading derivative financial instruments transactions, as well as those premiums paid for early redemption of financial instruments that qualify as liabilities.

Likewise, interest expenses are considered to be the valuation adjustments derived from items denominated in UDIs or in some other general price index, as well as the loss on changes in positions, provided said items come from assets or liabilities related to expenses or income that are part of the financial margin.

Commissions and fees charged and paid

The commissions and fees collected and paid are those generated by banking services and loan portfolio maintenance transactions. Fees recognized after the initial loan origination, those incurred as part of the maintenance of such loans, or those collected for other reasons than the granting are recognized in results when they are incurred.

Commissions and fees for loans received, placement of bank debt (other than those associated with its issuance) and for the provision of services, among others, of management, transfer, custody or management of funds, trustee activities, and for the granting of guarantees.

Commissions and fees related to the use or issuance of credit cards are also part of this item, either directly as commissions and fees for the first and subsequent annuities, inquiries or plastic issuance, or indirectly as those charged to affiliated establishments.

Income and expenses from commissions and similar fees are recognized against the consolidated income statement using different criteria, depending on their nature. The most significant are:

a. Those linked to financial assets and liabilities valued at fair value through profit and loss are recognized at the time of collection/payment.

b. Those originating from transactions or services that last over time are recognized over the life of such transactions or services.

c. Those that respond to a singular act are recognized when the act that originates them occurs.

(ah) Salvage revenue-

Salvage revenue is recorded as an asset and a reduction in the loss ratio cost on the date on which it become known and recorded at the estimated realization value.

(ai) Memorandum accounts-

(i) Own account transactions:

Memorandum accounts are used to record assets or commitments which do not form part of the Group's consolidated statement of financial position 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 liability for the Group.

– *Loan commitments:*

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

Said items recorded in this account are subject to loan rating.

– *Assets in trust or under mandate:*

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

- Those that are limited to the recognition of the trust assets (contract assets), that is, the value of the assets received in trust net of liabilities, keeping in separate records the data related to the management of each trust.

- Those that by their assets and liabilities result from the operations and whose recognition and valuation is carried out in accordance with the provisions of the specific applicable accounting criteria.

Losses incurred by the Group for the liabilities incurred as a trustee are recognized in 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 trustee unit maintains special accounts for each contract in the trustee system, and records in them and in its own accounting the money and other goods, 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 Group 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 Law.

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

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

The recognition of income from management of trusts is based on the accrual. Accrual of said income 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 or under management:*

Cash and securities owned by the clients under custody, guarantee and management are reflected in the respective memorandum accounts and were 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.

– *Collateral received by the entity:*

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

– *Uncollected earned interest derived from Stage 3 loan portfolio:*

Interest accrued is recorded in memorandum accounts once a portfolio loan is transferred to the Stage 3 loan portfolio.

– *Other registration accounts:*

Other book accounts are mainly made up of guarantees received by the Group, among others.

(ii) Transactions on behalf of third parties:

Represented by cash deposits from clients, securities in custody and transactions entered into on behalf of clients. Cash is deposited at banks in accounts other than those owned by the Group. Valuation of assets in custody, related to securities or certificates that qualify as securities, is carried out at fair value. For transactions on behalf of third parties, these are valued addressing the nature of the transaction, that is, investments in securities, repurchase agreements, securities lending and derivatives.

(aj) 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.

(4) Fair value of financial instruments-

Fair value hierarchy-

Not all financial assets and liabilities are recognized at fair value, so the information referring to financial instruments recognized at fair value is broken down below, and subsequently that referring to instruments valued at amortized cost. For the latter, the fair value presented is not applied in accounting, except for those in which the book value is the best approximation of its fair value.

a. Financial instruments recognized at fair value

The financial instruments recognized at fair value, as well as the valuation methods, assumptions and inputs used to determine the fair value of instruments classified within level 2 and 3 as of December 31, 2022:

	Level 1	Level 2	Level 3	Total	Valuation Techniques	Observable Inputs	Unobservable Inputs
Assets							
Negotiable financial instruments							
Fixed Income	103,732	142,969	1,419	248,120	Price provided by Valmer		
Variable Income	122,151	-	790	122,941	Price provided by Valmer		
Financial instruments receivable or sold							
Fixed Income	168,059	57,115	308	225,482	Price provided by Valmer		
Variable Income	653	-	-	653	Price provided by Valmer		
Derivatives for trading purposes							
Forwards	-	26,111	298	26,409	- Equity futures and forwards: Discounted cash flows - Options on bonds: Black 76 - Equity Options: Local Volatility, Black 76, Binomial Tree - Exchange Rate Options: Black 76, Local Volatility, Binomial Tree - Other interest rate options: Black 76, SABR and LGM	- Exchange rates - Futures prices quoted in the market - Market interest rates - Underlying asset prices: stocks; funds; - Volatilities observed in the market - Issuer credit spread levels - Quoted dividends - Correlations quoted in the market	- Implicit correlations between tenors - Interest rate volatility - Volatility of volatility - Implicit asset correlations - Implied long-term volatilities - Embedded derivatives
Options	232	6,927	1,017	8,176			

	Level 1	Level 2	Level 3	Total	Valuation Techniques	Observable Inputs	Unobservable Inputs
Swaps	-	174,526	407	174,933	- Linear interest rate products (Interest rate swaps, Call money swaps and FRA): Discounted cash flows. - Swaptions: Black and LGM - Constant maturity swaps: SABR		
Derivatives for hedging purposes							
Forwards	11	-	-	11			
Swaps	-	85	6,562	6,647	- Linear interest rate products (Interest rate swaps, Call money swaps and FRA): Discounted cash flows. - Swaptions: Black and LGM - Constant maturity swaps: SABR	- Exchange rates - Futures prices quoted in the market - Market interest rates - Underlying asset prices: stocks; funds; - Volatilities observed in the market - Issuer credit spread levels - Quoted dividends - Correlations quoted in the market	
Loan portfolio valued at fair value	-	-	5,100	5,100	The methodologies and input data used in the options are used to value the complement due to the effect of the embedded options, depending on their type		
Liabilities							
Derivatives for trading purposes							
Forwards	-	27,961	14	27,975	- Equity futures and forwards: Discounted cash flows - Options on bonds: Black 76 - Equity Options: Local Volatility, Black 76, Binomial Tree - Exchange Rate Options: Black 76, Local Volatility, Binomial Tree - Other interest rate options: Black 76, SABR and LGM	- Exchange rates - Futures prices quoted in the market - Market interest rates - Underlying asset prices: stocks; funds; commodities - Volatilities observed in the market - Issuer credit spread levels - Quoted dividends - Correlations quoted in the market	- Implicit correlations between tenors - Interest rate volatility - Volatility of volatility - Implicit asset correlations - Implied long-term volatilities - Embedded derivatives
Options	294	25,738	4,903	30,935			

	Level 1	Level 2	Level 3	Total	Valuation Techniques	Observable Inputs	Unobservable Inputs
Swaps	-	172,662	1,170	173,832	- Discounted cash flows. - Swaptions: Black and LGM		
Derivatives for hedging purposes							
Swaps	-	8,820	-	8,820	- Discounted cash flows. - Swaptions: Black and LGM	- Exchange rates - Futures prices quoted in the market - Market interest rates - Underlying asset prices: stocks; funds; commodities - Volatilities observed in the market - Issuer credit spread levels - Quoted dividends - Correlations quoted in the market	

a.1. Valuation Techniques

The main techniques used for the valuation of instruments classified in Level 2 and 3, as well as the main unobservable inputs, are described below:

- Comparable prices (similar asset prices): prices of comparable instruments and benchmarks are used to calculate its yield from the entry price or current rating making further adjustments to account for differences that may exist between valued asset and it is taken reference. It can also be assumed that the price of an instrument is equivalent to the other.

- Net asset value: this technique employs certain assumptions to use net present value as representative of fair value, which is equal to the total value of the assets and liabilities of a fund published by the managing entity.

- Black 76: variant of Black Scholes model, whose main application is the valuation of bond options, cap / floors and swaptions where the behavior of the forward and not the spot itself, is directly modeled.

- Black Scholes: The Black Scholes model postulates log-normal distribution for the prices of securities, so that the expected return under the risk neutral measure is the risk-free interest rate. Under this assumption, the price of vanilla options can be obtained analytically, so that inverting the Black- Scholes formula, the implied volatility for process of the price can be calculated.

- Local volatility: In the local volatility models, volatility, instead of being static, evolves over time according to the level of moneyness of the underlying, capturing the existence of smiles. The volatility smile of an option is the observed empirical relationship between its implied volatility and its strike price. These models are appropriate in the options whose value depends.

a.2. Quantitative information on unobservable inputs

Quantitative information of the unobservable input data used to calculate Level 3 valuations as of December 31, 2022 is presented below:

Derivatives for trading purposes	Significant Unobservable Inputs	Min	Average	Max	Units
Options on Equity Underlying	Equity volatilities	10	13.92	28.99	vegas
	Equity/Equity and Equity/FX Correlations	(7.55%)	50.18%	83.82%	%
Options on Exchange Rate Underlying	Exchange Rate Volatilities	6.79	11.18	12.39	vegas
Options on Interest Rate Underlying	Interest Rate Volatilities	9.48	19.37	27.33	vegas

a.3. Adjustments to the valuation for risk of default

The fair value of liabilities should reflect the entity's default risk, which includes, among other components, its own credit risk. In view of the above, the Group makes valuation adjustments for credit risk on the fair value of its assets and liabilities.

Adjustments are calculated by estimating the exposure at default, the probability of default and the loss given default, which is based on the levels of recoveries, for all derivative products on any underlying, deposits and repurchase agreements at a legal entity level (all counterparties under the same master agreement) with which BBVA México has exposure.

In the specific case of derivative financial instruments, credit valuation adjustments ("CVA") and debit valuation adjustments ("DVA") are included in the valuation, both assets and liabilities, to reflect the impact on the fair value of the counterparty's credit risk and the Group's own credit risk, respectively.

As a general rule, the calculation of CVA is the sum of the positive expected exposure at date t, the probability of default between t-1 and t, and the LGD. Similarly, DVA is calculated as the sum of the negative expected exposure at date t, the probability of default of BBVA between t-1 and t, and BBVA's LGD. Both calculations are performed over the entire period of the potential exposure. Calculation of the expected positive and negative exposure is done through a Montecarlo simulation of the market variables involved in all trades' valuation under the same legal netting set.

The information needed to calculate the probability of default and the loss given default of a counterparty comes from the credit markets. The counterparty's credit default swaps are used if liquid quotes are available. If a market price is not available, BBVA has implemented a mapping process based on the sector, rating and geography of the counterparty to assign probabilities of default and loss given default calibrated directly to market.

The financial instruments that were transferred between the different levels of the hierarchy during the year 2022 were as follows:

a.4. Reconciliation of the initial and final balance of Level 3 Financial Instruments

The movement of the balances of financial assets and liabilities recorded at fair value classified in Level 3 that appear in the attached consolidated balance sheets is shown below:

	Assets	Liabilities
Balance at the beginning	$ 4,410	$ (1,334)
Changes in fair value recognized in profit and loss:		
Realized	239	(119)
Unrealized	(1,334)	18
Changes in fair value recognized in other comprehensive income:		
Purchased	1,642	-
Sales	(1,152)	-
Derecognition	(163)	146
Issuances	1,204	(4,847)
Settlements	-	-
Net inflows / outflows of Level 3	(605)	49
Others	-	-
Balance at the end	$ 4,241	$ (6,087)

Changes in fair value that affected the result of the year were recognized under "Results from the valuation of financial instruments at fair value."

Changes in fair value that affected other comprehensive income were recognized under "Valuation of financial instruments to collect or sell."

a.5. Transfers between levels

The amounts of financial instruments that were transferred between the different levels of the hierarchy during the year 2022 present the following balances:

From:	Level 1		Level 2		Level 3	
to:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets						
Negotiable financial instruments						
Debt	713	-	-	254	-	357
Equity	4,896	-	-	1	-	-
Financial instruments receivable or sold						
Debt	998	-	-	-	-	-
Equity	-	-	-	-	-	-
Derivatives for trading purposes						
Forwards	-	-	-	-	-	-
Options	-	-	-	12	-	443
Swaps	120,759	-	-	13	-	89
Derivatives for hedging purposes						
Swaps	-	-	-	-	-	-
Portfolio at fair value	-	-	-	-	-	-
Total	127,366	-	-	280	-	889
Liabilities						
Derivatives for trading purposes						
Futures	-	-	-	-	-	-
Options	3,657	86	-	11	-	14
Swaps	115,693	-	-	172	-	305
Derivatives for hedging purposes						
Futures	-	-	-	-	-	-
Swaps	-	-	-	-	-	-
Total	119,350	86	-	183	-	319

These transfers basically correspond to:

– In capital and debt instruments, reclassifications from hierarchy level 1 to 2 occur mainly when, during the last month, no position or trading price has been observed on at least 90% of the business days. An instrument that, having been classified at level 2 for this reason and in subsequent periods meets said requirement, is reclassified to level 1. Transfers from level 2 to 3 occur when the issuer of the security ceases to trade, enters into default, there is not enough position or market information in electronic trading media (Reuters and Bloomberg), or it presents a static updated price, that is, it is repeated over a long period.

– In OTC derivatives, transfers from Level 2 to Level 3 occur in transaction in which the degree of unobservability in the market data used in the valuation exceeds the defined threshold (10%).

a.6 Sensitivity analysis

Sensitivity analysis is performed on derivative financial instruments with significant unobservable inputs (financial instruments included in level 3), in order to obtain a reasonable range of possible alternative valuations taking into account the nature of the methods and inputs used.

As of December 31, 2022, the possible variation in the "Mark to Market" (MtM) derived from the uncertainty in the unobservable parameter, considering the highest (most favorable scenario) or lowest (least favorable scenario) value obtained via the "Additional Valuation-Adjustment" (AVA) calculated for said positions would be:

	Possible variation in the MtM derived from the uncertainty in the unobservable parameter	
	Most favorable scenario	Least favorable scenario
Derivatives for trading purposes		
Equity Underlying Options	10	(10)
Options on Underlying Exchange Rate	2	(2)
Options on Underlying Interest Rate	-	-

a.7 Changes in valuation models

– At the Risk Committee meeting held on August 23, 2022, it was approved to replace the internal valuation model "Barone, Adesi & Whaley" applicable to the "Opción Americana FX" product, by the "Binomial Tree" model, to standardize it with the model used for the valuation of the Forward American FX product. - At the Risk Committee meeting held on November 22, 2022, it was approved to modify the methodology for the construction of the "Basis Swap UDI-USD" curve used in internal valuation models, due to the advantages of the new methodology.

b. Financial instruments recognized at amortized cost

The hierarchy of financial instruments recognized at amortized cost is presented below, as well as the valuation techniques and input data used to determine the fair value of instruments classified within level 2 and 3 as of December 31, 2022.

	Level 1	Level 2	Level 3	Total	Valuation Techniques	Main input data
Assets						
Cash and cash equivalents	275,971	-	-	275,971	The carrying value is the best approximation of its fair value.	
Margin accounts	-	9,836	-	9,836	The carrying value is the best approximation of its fair value.	
Repurchase agreement receivables	-	35,079	-	35,079	The carrying value is the best approximation of its fair value.	
Investments in financial instruments (FICPI)	227,803	2,065	-	229,868	The carrying value is the best approximation of its fair value.	
Loan portfolio with stage 1, 2 and 3 credit risk	-	-	1,510,813	1,510,813	Present Value Method (Discounted Future Cash Flows)	- Credit spread - Prepaid rate - Interest rates - Credit spread - Prepaid rate - Interest rates
Other accounts receivable						
Debtors on settlement of transactions	107,474	-	-	107,474	The carrying value is the best approximation of its fair value.	
Debtors for collateral in cash	-	6,415	-	6,415	The carrying value is the best approximation of its fair value.	
Sundry debtors (staff loans)	-	-	14,978	14,978	Present Value Method (Discounted Future Cash Flows)	- Credit spread - Prepaid rate - Interest rates - Credit spread - Prepaid rate - Interest rates

	Level 1	Level 2	Level 3	Total	Valuation Techniques	Main input data
Liabilities						
Traditional deposits						
Demand deposits	-	-	1,366,059	1,366,059	The carrying value is the best approximation of its fair value.	
Time deposits						
Of the general public	-	63	243,724	243,787	The carrying value is the best approximation of its fair value.	- Issuer credit risk - Prepaid rate - Interest rates
Mercado de Dinero	4,095	-	-	4,095	Price provided by Valmer	
Negotiable instruments issued	23,386	63,021		86,407	Price provided by Valmer	
Global deposit account without transactions	-	-	6,716	6,716	The carrying value is the best approximation of its fair value.	
Bank and other borrowings						
Short term	99	167	6,103	6,369	Present Value Method (Discounted Future Cash Flows)	- Issuer credit risk - Prepaid rate - Interest rates
Long term	23,190	1,177	7,473	31,840		
Repurchase/resale agreements payable	-	172,117	-	172,117	The carrying value is the best approximation of its fair value.	
Collateral sold or pledged	-	54,809	-	54,809	The carrying value is the best approximation of its fair value.	
Other accounts payable						
Creditors on settlement of transactions	13,894	-	-	13,894	The carrying value is the best approximation of its fair value.	
Creditors on margin accounts	-	342	-	342	The carrying value is the best approximation of its fair value.	
Creditors on collateral received in cash	-	13,438	-	13,438	The carrying value is the best approximation of its fair value.	
Financial instruments classified as liabilities						
Subordinated obligations outstanding	35,009	-	-	35,009	Price provided by Valmer	

(5) Cash and cash equivalents

As of December 31, 2022, cash and cash equivalents is as shown below:

Cash	$ 47,336
Banks	194,598
Restricted cash in hand:	
Purchase of foreign currency (1)	135,363
Sale of foreign currency (1)	(227,898)
Deposits at Central Bank (2)	34,002
Interbank loans (call money) (3)	-
Other restricted cash and cash equivalents (4)	-
Other cash and cash equivalents	35
	183,436
Reclassification to liability to offset foreign currency purchases and sales (2)	92,535
Total	$ 275,971

Banks is represented by cash in MXN and US dollars using the closing exchange rate published by the Central Bank of MXN 19.5089 per US dollar as of December 31, 2021.

	MXN	US Dollars MXN Equivalent	Total
Deposits with banks in the country	$ 184	$ -	$ 184
Deposits with foreign credit institutions	874	171,172	172,046
Central Banks	20,181	2,187	22,368
	$ 21,239	$ 173,359	$ 194,598

(1) The currencies to be received and delivered for purchases and sales to be settled in 24 to 96 hours as of December 31, 2022 are as follows:

	2022	
	Balance in foreign currency (millions)	Equivalent in MXN
Purchase of foreign currency to be received in 24, 48, 72 and 96 hours:		
USD	$ 5,747	$ 112,119
EUR	1,190	23,213
GBP	0.4	7
CNY	0.3	6
PEN	0.8	15
JPY	0.2	3
Total		$ 135,363

	2022	
	Balance in foreign currency (millions)	Equivalent in MXN
Sale of foreign currency to be settled in 24, 48, 72 and 96 hours:		
USD	(11,144)	$ (217,408)
EUR	(538)	(10,490)
JPY	-	-
CAD	-	-
		$ (227,898)
		$ (92,535) (*)

(*) Balance reclassified after clearing foreign currency purchases and sales.

Upon recording the currencies to be delivered or received for sales and purchases under "Cash and cash equivalents," the settlement accounts for the counter value of these transactions are recorded in the consolidated statement of financial position under "Other accounts receivable, net" and "Creditors on settlement of transactions," as appropriate.

In accordance with the provisions in force for credit institutions, the Cash and cash equivalents states that if the offset balance of currencies to be received with currencies to be delivered the term of which is between 24 and 96 hours has a credit balance, it must be reclassified to "Sundry creditors and other accounts payable;" therefore, as of December 31, 2022, the net credit balance of foreign currency to be received and delivered was reclassified for ($92,535).

(2) As of December 31, 2022, the single account of the Central Bank includes the Bank's Monetary Regulation Deposits ("DRM" for its acronym in Spanish) in the Central Bank, which amount to $34,002. These Monetary Regulation Deposits will have an indefinite duration for which the Central Bank will inform in advance the date and the procedure for the withdrawal of the balance. Interest on deposit are payable every 28 days applying the rate set forth in the regulation issued by the Central Bank

As of December 31, 2022, the amount of accrued interest not collected from the DRM that was recognized amounted to $99.

On May 12, 2016, through Circular 9/2016, the Central Bank disclosed the rules for auctions of Reportable Monetary Regulation Bonds (BREMS R) indicating that said BREMS R can be settled with DRM funds. The current Regulations state that the DRM may be made up of cash, securities or both.

As of December 31, 2022, the Group maintains BREMS R for $32,731, part of the DRM, which are recorded under "Investment in securities," within the category of available-for-sale securities (note 7 (b)), as derived from the bond issuance prospectus, which set forth that they should only be sold directly or disposed of through repo transactions to the Central Bank, when the latter so determines through general regulations.

(3) As of December 31, 2022, interest recognized through the year's profit or loss for Call Money transactions amounts to $50, with an average rate of return of 8.4%. At the end of the month there are no Call Money transactions with Multiple Banking.

(6) Margin accounts (derivative financial instruments)-

As of December 31, 2022, margin accounts are made up of guarantees granted in cash for derivative financial transactions in recognized markets for $9,836.

(7) Investments in financial instruments-

As of December 31, 2022, investments in financial instruments are made up as shown below:

a. Negotiable financial instruments (NFI)

	2022			
Instrument	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
Unrestricted:				
Equity shares, net	$ 17,553	$ -	$ (285)	$ 17,268
American Depositary Receipts (ADRS)	73	-	(25)	48
Sovereign debt Eurobonds	2,165	39	(95)	2,109
Fixed-rate government bonds	4,242	54	(71)	4,225
Promissory notes with returns settled at maturity	25	-	-	25
Federal Mexican Treasury Securities (CETES)	21,759	2	(76)	21,685

Instrument	2022 Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
Federal Government Development Bonds (BONDESD)	-	-	-	-
Corporate Eurobonds	313	3	(1)	315
Securitized bank debt certificates	1,073	27	(20)	1,080
Securitized debt certificates	6,690	54	3	6,747
Exchangeable securitized debt certificates (CBICS)	1,178	17	(61)	1,134
Fixed Rate Government Development Bonds (BONDES)	9,576	64	(3)	9,637
Federal Government Development Bonds in UDIS (UDIBONOS)	-	-	-	-
Federal in UDIS (UDIBONOS)	2,594	8	(8)	2,594
Mexican Bank Saving Protection Bonds (BPAS)	23,835	713	(68)	24,480
Investment funds	99,141	-	6,470	105,611
Treasury notes	423	1	(11)	413
Restricted:				
Collateral granted (a.1.)	169,154	2,219	(844)	170,529
Value date purchases (a.2.)	7,182	58	(2)	7,238
Value date sales (a.3.)	(4,032)	(41)	(4)	(4,077)
Total	$ 362,944	$ 3,218	$ 4,899	$ 371,061

During 2022, the Group recognized losses of $908 in results, due to valuation of unrestricted securities (note 35).

Also, as of December 31, 2022, the residual terms of these unrestricted investments are as follows:

	2022				
Instrument	Less than 1 month	Between 1 and 3 months	More than 3 months	No fixed term	Total acquisition cost
Unrestricted securities:					
Equity shares, net	-	-	-	17,553	17,553
ADRS	-	-	-	73	73
Sovereign debt Eurobonds	-	331	1,834	-	2,165
Fixed-rate government bonds	-	205	4,037	-	4,242
Promissory notes with returns settled at maturity	25	-	-	-	25
EUROBONOS	353	169	21,237	-	21,759
CBICS	-	-	1,178	-	1,178
BONDES	-	131	9,445	-	9,576
Corporate Eurobonds	-	-	313	-	313
Securitized bank debt certificates	-	-	1,073	-	1,073
Securitized debt certificates	-	901	5,789	-	6,690
UDIBONOS	-	-	2,594	-	2,594
BPAS	-	3,796	20,039	-	23,835
Investment funds	-	-	-	99,141	99,141
Treasury notes	-	-	423	-	423
Total	$ 378	$ 5,533	$ 67,962	$ 116,767	$ 190,640

a.1. Collateral granted as of December 31, 2022, are made up as follows:

	2022			
Instrument	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
Collateral under securities lending:				
Equity shares, net	$ -	$ -	$ -	$ -
IPAB Bond	-	-	-	-
Fixed-rate government bonds	-	-	-	-
BONDES	14,503	13	(10)	14,506
BPAS	14,776	466	(23)	15,219
CETES	12,559	-	(46)	12,513
Total collateral under securities lending	$ 41,838	$ 479	$ (79)	$ 42,238

Instrument	2022 Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
Collateral under repurchase/resale agreements:				
Securitized bank debt certificates	1,544	3	(144)	1,403
BONDES	16,900	98	(14)	16,984
Fixed-rate government bonds	16,819	269	(85)	17,003
BPAS	41,162	1,195	(138)	42,219
CETES	41,140	-	(174)	40,966
UDIBONOS	1,433	4	4	1,441
CBICS	6,244	133	(181)	6,196
Eurobonds	-	-	-	-
Securitized debt certificates	106	1	-	107
Total collateral under repurchase/resale agreements	$ 125,348	$ 1,703	$ (732)	$ 126,319
Other collateral:				
Fixed-rate government bonds	-	-	-	-
BPAS	1,069	30	-	1,099
Securitized debt certificates	392	3	(1)	394
CETES	-	-	-	-
Corporate Eurobonds	177	2	(20)	159
Treasury notes	330	2	(12)	320
Investment funds	-	-	-	-
Total other collateral	$ 1,968	$ 37	$ (33)	$ 1,972
Total restricted securities by collateral granted	$ 169,154	$ 2,219	$ (844)	$ 170,529

a.2. Value date purchases as of December 31, 2022, were comprised as follows:

Instrument	2022			
	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
Equity shares, net	$ 4	$ -	$ -	$ 4
ADRS	3	$ -	$ -	3
Fixed-rate government bonds	5,968	58	(2)	6,024
BONDES	-	-	-	-
CETES	1,135	-	-	1,135
UDIBONOS	72	-	-	72
Securitized debt certificates	-	-	-	-
Sovereign debt Eurobonds	-	-	-	-
Total	$ 7,182	$ 58	$ (2)	$ 7,238

a.3. Value date sales as of December 31, 2022 were comprised as follows:

Instrument	2022			
	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
Equity shares, net	$ (2)	$ -	$ -	$ (2)
ADRS	-	-	-	-
BPAS	-	-	-	-
Fixed-rate government bonds	(3,803)	(41)	(4)	(3,848)
CETES	(127)	-	-	(127)
UDIBONOS	(50)	-	-	(50)
Securitized debt certificates	(50)	-	-	(50)
Total	$ (4,032)	$ (41)	$ (4)	$ (4,077)

During 2022, the Group recognized losses of $44 in results, due to the valuation of restricted securities coming from collaterals granted (note 35).

As of December 31, 2022, the returns associated with all the Group's trading securities recorded in the income for the year amounted to $23,332 (note 33).

b. Financial Instruments to Collect or Sell (FICS)

Instrument	2022			
	Acquisition cost	Interest accrued	Increase (decrease) by valuation (2)	Carrying value
Unrestricted securities:				
Equity shares, net	$ 524	$ -	$ 129	$ 653
CETES	6,437	312	(40)	6,709
Sovereign debt Eurobonds	31,540	376	(3,438)	28,478
Corporate Eurobonds	3,476	118	(271)	3,323
Fixed-rate government bonds	76,736	772	(6,579)	70,929
BONDES	1,137	4	-	1,141
BPAS	10,734	336	(20)	11,050
Securitized debt certificates	286	3	1	290
Securitized bank debt certificates	174	18	(13)	179
CEDES	-	-	-	-
Treasury	1,044	8	-	1,052
BREMS R (1)	32,709	95	(73)	32,731
UDIBONOS	2,481	120	(117)	2,484
Total unrestricted	$ 167,278	$ 2,162	$ (10,421)	$ 159,019
Restricted (b.1)	$ 71,781	$ 936	$ (5,601)	$ 67,116
	$ 239,059	$ 3,098	$ (16,022)	$ 226,135

(1) BREMS R part of the Monetary Regulation Deposit (note 4).

(2) As of December 31, 2022, the result from the valuation of Financial Instruments to Collect or Sell is presented in accumulated OCI at the negative effect from the valuation net of deferred taxes of $8,703 of the derivatives that hedge said position of securities.

As of December 31, 2022, the terms at which the financial instruments are agreed to be bought or sold without restriction are as shown below:

Instrument	Less than 1 month	Between 1 and 3 months	More than 3 months	No fixed term	Total, Acquisition cost
	2022				
Unrestricted:					
Equity shares, net	$ -	$ -	$ -	$ 524	$ 524
CETES	105	1,437	4,895	-	6,437
Sovereign debt Eurobonds	-	-	31,540	-	31,540
Corporate Eurobonds	-	(20)	3,496	-	3,476
Fixed-rate government bonds	-	2,870	73,866	-	76,736
BONDES	-	437	700	-	1,137
BPAS	-	-	10,734	-	10,734
Securitized debt certificates	-	25	261	-	286
Securitized bank debt certificates	157	-	17	-	174
CEDES	-	-	-	-	-
BREMS R	-	-	32,709	-	32,709
Treasury	-	1,044	-	-	1,044
UDIBONOS	-	-	2,481	-	2,481
Total unrestricted	$ 262	$ 5,793	$ 160,699	$ 524	$ 167,278

b.1 The collateral granted (restricted securities) of financial instruments to collect or sell as of December 31, 2022 is summarized as follows:

Instrument	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
	2022			
Securitized debt certificates, corporate	$ 159	$ 3	$ (7)	$ 155
Fixed-rate government bonds	633	9	(60)	582
BPAS	4,338	136	(13)	4,461
Corporate Eurobonds	1	-	-	1
Securities lending	$ 5,131	$ 148	$ (80)	$ 5,199

Instrument	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
Fixed-rate government bonds	61,995	727	(5,188)	57,534
Securitized debt certificates	2,881	39	(168)	2,752
Securitized bank debt certificates	1,580	20	(158)	1,442
Corporate Eurobonds	194	2	(7)	189
BPAS	-	-	-	-
Collateral under repurchase/resale agreements	$ 66,650	$ 788	$ (5,521)	$ 61,917
Treasury bills	-	-	-	-
Total restricted	$ 71,781	$ 936	$ (5,601)	$ 67,116

As of December 31, 2022, the returns associated with all of the Group's available-for-sale securities recognized in income for the year amounted to $12,504 (note 33).

During 2022 the amount of expected credit losses from impairment of financial instruments to collect or sell recognized in income was $24,576.

c. Financial Instruments to Collect Principal and Interest (FICPI)

Instrument	2022		
	Acquisition cost	Interest accrued	Carrying value
Mortgage Debtor Support Program - Special CETES (nota 10)	$ 1,562	$ -	$ 1,562
Fixed-rate government bonds	60,975	872	61,847
Deposit certificates	8,396	79	8,475
Corporate Eurobonds	14,797	208	15,005
Treasury	5,835	23	5,858
CETES	1,394	-	1,394
Securitized debt certificates	10,176	56	10,232
Securitized bank debt certificates	574	4	578
CBICS	2,877	25	2,902
UDIBONOS	125,608	1,231	126,839
Total to collect principal and interest	$ 232,194	$ 2,498	$ 234,692

(1) Reconciliation between the final and initial balance of the IFCPI credit risk estimate.

		2022
Balance at the beginning	$	-
Initial recognition in other comprehensive income		4
Effect on income for the year		21
Balance at the end	$	25

As of December 31, 2022, the returns associated with all of the Group's Financial Instruments to Collect Principal (FICPI) and Interest recognized in income for the year amounted to $20,002 (note 33).

During 2022 the amount of expected credit losses due to impairment of financial instruments to collect principal and interest, recognized in income was $39.

d. Collateral Received and Delivered.

The terms and conditions for the delivery of collateral securities adhere to the framework agreements for repos, securities lending and derivatives (ISDA/CMOF). These agreements provide for the exchange of collaterals, which will mitigate credit risk, in order to have a reasonable level thereof; the guarantee received or delivered does not meet the property transfer criteria, so the entity that delivers the collateral maintains the corporate and economic rights of said instruments, unless there is a breach of the guaranteed obligations; however, these framework agreements contemplate the temporary use and exploitation of said instruments with the commitment to return them at the expiration of the guaranteed transaction or by calls to return the margin due to a decrease in the guaranteed value at risk.

Under the collateral exchange agreements of financial institutions that have a negative market value, it agrees to deliver or receive to the other party (which therefore has a positive market value) assets, liabilities or cash to reduce exposure for credit risk, in accordance with the terms signed in the bilateral agreement.

As of December 31, 2022, there are no investments in debt securities other than government securities of the same issuer that exceed 5% of the Bank's global capital.

(8) Repurchase/resale agreements and securities lending-

a. Repurchase agreement receivables

As of December 31, 2022, the repurchase transactions are as follows:

	2022		
	Asset	Liability	
Instrument	Receivable under repurchase agreement	Collateral sold or pledged	Debit difference
BONDES	$ 28,551	$ -	$ 28,551
Fixed-rate government bonds	(111)	-	(111)
BPAS	5,365	-	5,365
CETES	1,274	-	1,274
Total	$ 35,079	$ -	$ 35,079

b. Creditors on repurchase/resale agreements

As of December 31, 2022, creditors on repurchase/resale agreements are as follows:

	2022
BONDES	$ 16,171
Fixed-rate government bonds	58,901
BPAS	41,855
Securitized debt certificates	-
Bank bonds	3,182
CETES	40,990
CBICS	6,204
Corporate Eurobonds	3,151
Sovereign debt Eurobonds	222
UDIBONOS	1,441
Total	$ 172,117

As of December 31, 2022, interest (premiums) receivable recorded by the Group were $4,024 presented in the consolidated income statements under "Interest income," and interest (premiums) payable recorded by the Group under "Interest expense" for the year ended December 31, 2022 were ($19,716) (see note 33).

c. Collateral sold or pledged in repurchase/resale agreements and securities lending transactions as of December 31, 2022, are as follows:

	2022		
	Memorandum accounts		Liability
Instrument	Collateral received	Collateral received and sold or pledged	Collateral sold or pledged
Securities lending:			
Fixed-rate government bonds	$ 21,842	$ 20,390	$ 19,808
UDIBONOS	6,221	6,221	6,221
CETES	13,336	13,336	13,336
CBICS	-	-	-
Equity shares, net	65	65	65
	$ 41,464	$ 40,012	$ 39,430
Repurchase agreements:			
BONDES	19,641	8,642	8,643
Fixed-rate bonds	917	917	993
BPAS	4,757	4,757	4,742
CETES	1,000	1,000	1,001
CBICS	-	-	-
	26,315	15,316	15,379
Other collateral received	9,376	-	-
Total	$ 77,155	$ 55,328	$ 54,809

Interest payable under collateral sold and granted in repurchase and securities lending transactions recognized in profit or loss for the years ended December 31, 2022 amounted to ($180), see note (33).

As of December 31, 2022, the Group has repurchase agreements for an average period of 7 days, while transactions involving securities lending are performed over an average period of 2 days.

(9) Derivative financial instruments-

As of December 31, 2022, securities and derivative transactions are as follows:

a. Derivative financial instruments.- As of December 31, 2022, the Group carries out derivative transactions to meet the needs of our clients, manage the sensitivity of its own portfolios, as a market maker and to hedge its own structural balance sheet risks.

Trading:

	2022			
	Carrying value		Balance	
	Assets	Liabilities	Asset	Liability
Futures long position	$ 61,799	$ 61,799	$ -	$ -
Futures short position	476	476	-	-
Forwards long position	591,486	613,922	3,227	25,663
Forwards short position	596,482	575,610	23,183	2,311
Options purchased	8,176	-	8,176	-
Options sold	-	30,935	-	30,935
Swaps	1,535,108	1,533,619	174,932	173,443
	$ 2,793,527	$ 2,816,361	$ 209,518	$ 232,352

Hedging:

	2022				
	Nominal amount		Balance		
	Assets	Liabilities	Assets	Liabilities	Net position
Futures	$ 1,130	$ 1,119	$ 11	$ -	$ 11
Forwards long position	-	-	-	-	-
Swaps	87,306	89,479	6,647	8,820	(2,173)
	$ 88,436	$ 90,598	$ 6,658	$ 8,820	$ (2,162)

b. Future and forward contracts – As of December 31, 2022, the Group executed transactions in organized markets (Mex-Der and Chicago) obtaining a loss of $(787), distributed by Rates of $(142), Foreign Exchange of $(984), Indices of $358 and Securities of $(19).

It also entered into forward contracts with the main currencies. At the end of the 2022 fiscal year, the open contracts are shown below:

Trading:

Type of transaction	Underlying	Sales		Purchases		
		Receivable	Contract value	Contract value	Payable	Net position
Futures	US dollar	$ 427	$ 427	$ 61,482	$ 61,482	$ -
	Indexes	49	49	54	54	-
	DC24 Bond	-	-	259	259	-
	S&P	-	-	4	4	-
		$ 476	$ 476	$ 61,799	$ 61,799	$ -

Type of transaction	Underlying	Sales		Purchases		
		Receivable	Contract value	Contract value	Payable	Net position
Forwards	US dollar	$ 571,456	$ 551,463	$ 568,478	$ 590,583	$ (2,112)
	Stocks	24,893	24,012	23,008	23,339	550
	Bonds	133	135	-	-	(2)
		$ 596,482	$ 575,610	$ 591,486	$ 613,922	$ (1,564)

Hedging:

Type of transaction	Underlying	Sales		Purchases		
		Receivable	Contract value	Contract value	Payable	Net position
Futures	US dollar	$ 1,130	$ -	$ 1,119	$ -	$ 11

c. Options - As of December 31, 2022, the Group has entered into option contracts as follows:

Trading:

	Type of transaction	Underlying	Reference amount	Fair value
Purchases	OTC Options (1)	US dollar	$ 93,546	$ 3,404
		Interest rates	96,714	2,423
		Equity and Indexes	28,169	2,117
	OM Options (2)	Equity and Indexes	6,718	232
				$ 8,176

BBVA
Creando Oportunidades

	Type of transaction	Underlying	Reference amount	Fair value
Sales	OTC Options (1)	US dollar	104,829	4,866
		Interest rates	120,826	2,567
		Equity and Indexes	25,333	23,208
				30,641
	OM Options (2)	Equity and Indexes	6,762	294
				$ 30,935

(1) OTC (Over The Counter) equivalent to Unorganized Markets

(2) OM (Organized Markets)

d. Swaps – As of December 31, 2022, the Group's swap transactions are as follows:

Trading:

Underlying	Divisa	Contract value receivable	Contract value payable	Receivable	Payable	Net position
Divisas	Peso	$ 168,107	$ 154,085	$ 159,979	$ 151,752	$ 8,227
	US dollar	190,606	176,830	193,320	171,554	21,766
	UDIS	43,997	47,339	43,930	45,876	(1,946)
	Euro	38,500	61,933	39,749	64,404	(24,655)
	Yen	-	132	-	134	(134)
	Colombian Peso	1,405	-	1,329	-	1,329
	GBP	1,173	1,173	1,212	1,223	(11)
	CLP	3,018	-	2,910	-	2,910
				$ 442,429	$ 434,943	$ 7,486
			Notional amount			
Interest rates	Peso (1)		$ 5,756,861	$ 923,695	$ 927,960	$ (4,265)
	Euro		184,031	11,858	11,801	57
	US dollar		1,319,526	157,229	158,544	(1,315)
	COP		-	-	-	-
				$ 1,092,782	$ 1,098,305	$ (5,523)

		Notional amount			
Stocks	Peso	3,745	40	363	(323)
	US dollar	1,717	67	186	(119)
			107	549	(442)
CDS	US dollar	585	585	41	41
	Subtotal		$ 1,535,359	$ 1,533,838	$ 1,521
CVA / DVA IFRS13			(251)	(219)	(32)
Total			$ 1,535,108	$ 1,533,619	$ 1,489

(1) The Group entered into Nominal Interest Rate Swaps in pesos with various institutions, which were agreed at rates between 3.50% and 20.26% per annum.

Swaps for hedging purposes:

As of December 31, 2022, swaps are as follows:

Fair value hedges:

Underlying	Currency	Contract value receivable	Contract value payable	Receivable	Payable	Net position
Currency	Peso	$ 46,405	$ 20,238	$ 47,809	$ 20,511	$ 27,298
	US dollar	11,777	13,461	11,852	12,982	(1,130)
	GBP	-	1,107	-	1,133	(1,133)
	Euro	-	20,300	-	21,786	(21,786)
		$ 58,182	$ 55,106	$ 59,661	$ 56,412	$ 3,249
			Notional amount			
Interest rates	Peso (1)		$ 54,124	12,857	13,910	(1,053)
	US dollar		51,440	14,788	19,157	(4,369)
Total				27,645	33,067	(5,422)
				$ 87,306	$ 89,479	$ (2,173)

Underlying	Currency	Contract value receivable	Contract value payable	Receivable	Payable	Net position
Currency	Peso	$ -	$ -	$ -	$ -	$ -
	US dollar	-	-	-	-	-
	Euro	-	-	-	-	-
		-	-	-	-	-
			Notional amount			
Interest rates	Peso		-	-	-	-
Total				$ 87,306	$ 89,479	$ (2,173)

(1) As of December 31, 2022, the Group has open Nominal Interest Rate Swaps in pesos with various institutions at rates between 4.88% and 10.98% per annum.

Collateral received in derivatives as of December 31, 2022, is recorded under "Payables for collateral received in cash" as follows:

	Acquisition cost	Interest accrued	Carrying value
Collateral received in cash in derivative transactions:			
Alsea S. A. B. de C. V.	$ 212	$ 1	$ 213
Banca Afirme, S. A. IBM	12	-	12
Banco Mercantil del Norte, S. A. IBM	2,094	8	2,102
Banco del Bajío SA	6	-	6
Banco Santander México, S. A. IBM	1,021	4	1,025
Bank of Nova Scotia	5	-	5
BBVA Madrid	2,145	3	2,148
BBVA Colombia	68	-	68
BNP Paribas	2,461	10	2,471
Credit Agricole CIB	313	1	314
Deutsche Bank	1,055	4	1,059
Goldman Sachs México Casa de Bolsa	22	-	22
HSBC México, S. A. IBM	504	2	506
J. Aron & Company	21	-	22
Kaluz Sa	168	1	169
Masari Casa de Bolsa, S. A. de C. V.	7	-	7

		Acquisition cost		Interest accrued		Carrying value
Mizuho Bank México IBM		3		-		3
Morgan Stanley & CO		224		1		224
Morgan Stanley Capital		5		-		5
MUFG Bank México IBM		336		2		338
Natixis		1,315		5		1,320
Scotiabank Inverlat		199		1		200
Standard Chartered		6		-		6
Collateral received in cash in derivative transactions	$	12,202	$	43	$	12,245
Collateral received in cash other than derivative transactions	$	1,193	$	-	$	1,193
	$	13,395	$	43	$	13,438

As of December 31, 2022, the Group has recorded collateral received in memorandum accounts "Collateral received by the entity" amounting to $339.

e. Counterparty and proprietary credit risk

The amounts recorded in the consolidated balance sheet as of December 31, 2022, relating to credit risk valuation adjustments for positions in derivatives for trading purposes held in unrecognized markets amounted to $(567) for CVA and $957 for DVA. The impact on the results for the year from January 1 to December 31, 2022, amounted to $(276).

f. Transactions with embedded derivatives

Embedded derivatives as of December 31, 2022 shown below are part of derivatives for trading purposes.

	2022							
	Carrying value				Balance			
		Asset		Liability		Asset		Liability
Options acquired	$	198	$	-	$	198	$	-
Options sold		-		152		-		152
Swaps		1,557		1,559		52		54
	$	1,755	$	1,711	$	250	$	206

f.1. Embedded options (underlying)

Trading:

		Underlying	Monto de nominal	Valor razonable
Purchases	OTC Options	US dollar	$ 865	$ 11
		Interest rates	19,649	169
		Equity and Indexes	-	18
			20,514	198
Sales	OTC Options	US dollar	1,053	$ 64
		Interest rates	1,732	1
		Equity and Indexes	2,242	87
			5,027	152
			$ 25,541	

f.2 Embedded swaps (underlying)

Trading:

		2022			
Underlying	Currency	Notional amount	Market value receivable	Market value payable	Fair value
Currency	Peso	$ 500	$ 502	$ 507	$ (5)
	Euro	521	533	532	1
			1,035	1,039	(4)
Interest rate	Peso	8,850	260	266	(6)
	US dollar	261	262	254	8
			522	520	2
		10,132	$ 1,557	$ 1,559	$ (2)

f.3 Forward embedded (underlying)

As of December 31, 2022, the Group does not have embedded forwards.

According to the structured banking bonds issuance programs, the Institution embedded options and swaps for a nominal value of $25,541 and $10,132 as of December 31, 2022, with Interest Rates underlying for Swaps and Currencies, Indices and Interest Rates for options.

g. Alignment of hedges with the objectives of comprehensive risk management

At the BBVA Mexico Group, the Board of Directors approves, at the proposal of the Risk Committee (i) the objectives, guidelines and policies of Comprehensive Risk Management, as well as eventual modifications, (ii) the global risk exposure limits 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.

To monitor and control the risk of the Structural Balance (Banking Book) of interest rates and exchange rates, the Assets and Liabilities Committee adopts investment and hedging strategies within the risk policies and limits approved by the Board of Directors, Risk Committee delegated by the Board and Risk Management Committee Strategies. For a hedging relationship to qualify as such, it must be aligned with the objectives and policies of Comprehensive Risk Management, including the approved limits, and the strategies approved by the Assets and Liabilities Committee.

A scheme of economic value risk limits and financial margin has been established (note 33) of the structural balance, which is monitored on a monthly basis by the Risk Committee and ALCO and is presented quarterly to the Board of Directors; in case of exceedance, communication and control procedures are in place.

In addition, for control purposes, the prospective effectiveness of hedging relationships is monitored individually, and contrasted with the established effectiveness range (80-125), where, in the event of ineffectiveness, notifies the Assets and Liabilities Committee, in order to decide if a rebalancing of any specific coverage(s) is required based on alignment with the comprehensive Risk Management strategy, given that prospective measurement is not considered alone, as a preponderant factor in determining whether a coverage relationship should be discontinued.

The evaluation that exposure to credit risk does not dominate changes in the value of the economic relationship between the hedged item and the hedging instrument is made globally for each counterparty. For such purposes, the entity has established formal processes for constant monitoring and vigilance to ensure that said exposure is below the credit limits authorized for each customer or counterparty in particular (counterparty risk), also considering credit risk mitigating factors (collateral contract). This evaluation is carried out considering the accumulated credit risk for all transactions of derivative financial instruments entered into as a whole with said counterparty.

In accordance with the strategy and objective defined in the ALCO and CGL, Financial Management structures the hedges described below in such a way that the hedged item generally has values that move in opposite directions for the same risk (nominal, term and rate), thus ensuring the existence of an economic relationship and mitigating the covered risk.

On the other hand, the Global Markets unit carries out interest rate hedges to eliminate the asymmetric sensitivity between the fixed rate loans granted and their variable rate funding due to CGL transfer prices, and the risk management of said sensitivity that GM made in the swap market.

g.1 Fair value hedges

Derivatives that hedge the exposure to changes in the fair value of assets and liabilities or firm commitments that have not be recognized, through IRS or CCY the conversion from fixed rate to variable rate is made, depending on the currency in which the position is defined and the expected rate.

The risk to be hedged is interest rate risk, due to both the sensitivity of the hedged instrument and the cost of funds attributable to the acquisition of the hedged item. The other risks to which the hedged items are exposed, such as credit risk, contagion risk, liquidity risk, etc., are not hedged.

g.2 Cash flow hedges

The purpose of these hedges is to offset the exposure to variability in future cash flows attributable to a particular risk associated with a recognized asset or liability that may affect the results of the year in which such flows occur, firm commitment or highly probable forecasted transaction, such as coupons on variable rate deposits and the flow of expenses denominated in foreign currencies, below is a description of the application of the most relevant hedges:

Cash flow hedges with IRS and CCY

The Monetary Regulation Deposit in MXN with variable interest rate is hedged through swaps, hedging the variability of future cash flows up to the term of the hedge.

It is also possible to designate cash flow hedges for Eurobonds in which a fixed interest rate in USD or EUR is exchanged for a fixed rate in local currency.

Exchange rate hedges with Forwards

Within this type of strategy, Financial Management can designate as a primary position the estimation of annual budget cash flows in foreign currency in dollars and euros. The objective is to hedge the risk of possible depreciation of the domestic currency against the dollar or euro, currencies that affect the forecasted cash flows.

Interest rate hedges with FX Swaps

One of the main activities of Financial Management is the management of excess liquidity in pesos and dollars of the structural balance sheet, thus controlling and monitoring foreign currency positions, seeking to hedge FX Swap market spreads (implicit forward rate) vs. funding and short-term investment rates.

The objective of hedging with FX Swaps is to cover the variability in the expected flows from the investment of dollars with the FED at the FED Funds rate, this would be achieved by the rate differential between the implicit forward curve of the FX Swap, versus the investment rate of the local currency, ensuring, through the FX Swap instrument, a rate of return.

As of December 31, 2022, the Group has entered into the following hedge contracts:

Type of hedge relationship: Cash Flow

Description of hedge item	Hedged 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	Item in consolidated statement of comprehensive income where hedge is applied	Item in consolidated statement of financial position where primary position is recognized	Ineffectiveness recognized
Partial hedge of Monetary Regulation Deposit (DRM) (1)	Variable flows from DRM	24 IRS FIXED/TIIE	Jan-25	$ (2,047)	25 months	$ (970)	$ (70)	Interest margin from cash	Restricted cash	$ -
Expenses and investment hedge in USD and EUR (1)	Variation of exchange rate in estimated expense cash flows	0 FWD SALE USD/MXN 0 FWD SALE EUR/MXN	Dec-22	-	0 months	49	-	Expenses	Property, plant and equipment, advertising, computing	-
Cash flow hedge UMS USD and EUR	Change from fixed to domestic fixed currency	69 CCS FIXED/FIXED USD/EUR	Oct 33	317	132	2,042	667	Interest margin from investments in securities	Investment in securities	-
Cash flow hedge CCS Corporate bonds	Change from fixed to fixed domestic	1 CCS FIXED/FIXED USD	Jul-25	(9)	31 months	14	27	Interest margin from investments in securities	Investment in securities	-
Cash flow hedge IRS Corporate bonds	Change from variable to fixed currency	1 IRS FIXED/VAR MXN	Oct-23	(15)	10 months	8	19	Interest margin from investments in securities	Investment in securities	-

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

Type of hedge: Fair Value

Description of hedge item	Nature of hedged risks	Hedge instrument	Maximum maturity date of hedge	Hedge instrument fair value	Gain/Loss of hedge instrument as of December 2022	Gain/Loss of hedge item as of December 2022	Item in statement of financial position where primary position is recorded	Ineffectiveness recognized
Hedge of USD and MXN fixed-rate loans to change to variable (1)	Fixed rate risk in USD loans and fixed rate in MXN loans	2 IRS pays fixed interest in USD and receives variable, 2 IRS pays fixed interest in MXN and receives variable	2040	$ 630	$ 852	$ (868)	Stage 1 loan portfolio	$ (16)

Description of hedge item	Nature of hedged risks	Hedge instrument	Maximum maturity date of hedge	Hedge instrument fair value	Gain/Loss of hedge instrument as of December 2022	Gain/Loss of hedge item as of December 2022	Item in balance sheet where primary position is recorded	Ineffectiveness recognized
Hedge of Mexican sovereign bonds denominated in EUR/USD/GBP (1)	Fixed rate UMS bonds in EUR/USD/ GBP	12 CCS V/F	2030	251	1,833	(1,833)	Investment in securities	-
Hedge of issuance of USD subordinated notes (1) and (2)	Fixed rate in notes issued in USD V/F	14 IRS F/V	2029	(4,513)	(6,230)	6,230	Subordinated debt	-
Hedge of issuance of USD subordinated notes (1) and (2)	Fixed rate in notes issued in USD V/F	9 CCS F/V	2024	3,702	(5,634)	5,635	Subordinated debt	1
Corporate bond hedging (1) and (2)	Fixed rate in USD, EUR, UDI	13 CCS V/F	2025	14	224	(224)	Investments in financial instruments	-
Hedge of corporate bonds and M's bonds (1)	Fixed rate in USD bonds/	19 IRS V/F	2027	657	350	(319)	Investments in financial instruments	31
Securitized debt certificates	Fixed rate in MXN to variable rate in MXN	2 IRS F/V	2027	(225)	(278)	278	Issuances of liabilities	-
Hedge of UMS UDI bonds	Risk in Bond Ums Vento Margen	12 CCS Pays Udi / Receives Fixed MXN	2035	(318)	(318)	319	Issuances of liabilities	1
Hedge of UMS EUR Bonds	Risk in Bond Ums Vento Margen	74 CCS Pays Eur / Receives Fixed MXN	2033	(359)	(359)	(360)	Issuances of liabilities	1

(1) As of December 31, 2022, the balance of interest on the open position of hedging derivatives amounts to $$2,007.
(2) As of December 31, 2022, there is an effect for the exchange rate component amounting to $3,076
* Fair value of Cross Currency Swaps (CCS) does not include an exchange rate component, as it is not part of the hedging relationship.
IRS - Interest rate swaps. CCS - Cross Currency Swaps.

(10) Loan portfolio-

The entity's business model determines whether the cash flows will come from obtaining contractual cash flows, from the sale of the loan portfolio, or both.

If the objective of the business model of the loan portfolio is to hold it to collect the contractual cash flows and the terms of the contract provide for cash flows at pre-established dates, corresponding only to payments of principal and interest on the principal amount outstanding. However, if this is not met, it should be treated in accordance with Mexican FRS C-2, "Investment in financial instruments."

Therefore, it is determined that the loan portfolio should be presented in the statement of financial position at amortized cost.

On the other hand, the PIPO (Principal and Interest Payment Only) test is a tool that allows evaluating the cash flows of the loan portfolio, by homogeneous portfolio or individual loan transactions. This test allows, through the analysis of contractual cash flows, to determine whether they correspond only to principal and interest payments.

Loan portfolio classified by type as of December 31, 2022 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Commercial loans				
Denominated in MXN				
Commercial	$ 406,721	$ 12,403	$ 5,454	$ 424,578
Rediscounted portfolio	9,441	-	-	9,441
Leases	1,202	-	-	1,202
Denominated in UDIs (MXN equivalent):				
Commercial	1	-	3	4
Denominated in foreign currency (MXN equivalent):				
Commercial	173,318	6,428	2,196	181,942
Rediscounted portfolio	1,192	-	-	1,192
Leases	2,640	-	-	2,640
Commercial or business activity	594,515	18,831	7,653	620,999
Denominated in MXN:				
Loans to financial entities	29,229	-	9	29,238
Loans to government entities	170,017	-	-	170,017
Denominated in foreign currency (MXN equivalent):				
Loans to financial entities	342	-	-	342
Loans to government entities	15,719	-	-	15,719
Interest collected in advance	(759)	-	-	(759)
Total, commercial loans	809,063	18,831	7,662	835,556
Consumer loans				
Denominated in MXN:				
Credit cards	140,807	3,818	3,287	147,912
Other consumer loans	205,914	4,798	6,076	216,788
Denominated in foreign currency (MXN equivalent):	-	-	-	-
Other consumer loans	-	-	-	-
Total, consumer loans	346,721	8,616	9,363	364,700

	Stage 1	Stage 2	Stage 3	Total
Mortgage loans-				
Denominated in MXN:				
Medium and residential	287,239	9,736	6,401	303,376
Low income	4,092	465	231	4,788
Denominated in UDIs (MXN equivalent):				
Medium and residential	2,233	227	191	2,651
Denominated in foreign currency (MXN equivalent):				
Medium and residential	6	-	-	6
Total, mortgage loans	293,570	10,428	6,823	310,821
Total, loan portfolio	$ 1,449,354	$ 37,875	$ 23,848	$ 1,511,077

As of December 31, 2022, the performing commercial loan portfolio includes a restricted portfolio in the amount of $22,148, granted as a guarantee from bank and other borrowings, to secure compliance with the Bank's obligation under the financing granted by Banxico for $23,768, in order for BBVA to grant financing to SMEs, in accordance with Circular 25/2020 "Rules applicable to Central Bank financing secured with qualified credit assets of banks, for channeling to micro, small and medium-sized enterprises."

The following is a breakdown of commercial loans as of December 31, 2022, identifying the distressed and non-distressed portfolio, classified by risk stage, respectively.

		2022						
		Distressed			Non-distressed			
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
Commercial or business activity		$ -	$ -	$ 7,166	$ 571,112	$ 18,579	$ -	$ 596,857
Ordinary portfolio		-	-	5,109	490,159	10,878	-	506,146
	MXN	-	-	3,161	346,893	6,228	-	356,282
	Foreign currency	-	-	1,947	143,265	4,650	-	149,862
	UDIS	-	-	1	1	-	-	2
	UMA	-	-	-	-	-	-	-
	VSM	-	-	-	-	-	-	-
Portfolio under term extension				2,057	80,953	7,701	-	90,711
	MXN	-	-	1,806	47,068	5,924	-	54,798
	Foreign currency	-	-	249	33,885	1,777	-	35,911
	UDIS	-	-	2	-	-	-	2
	UMA	-	-	-	-	-	-	-
	VSM	-	-	-	-	-	-	-
Special repayment regime								
	MXN	-	-	-	-	-	-	-
	Foreign currency	-	-	-	-	-	-	-
	UDIS	-	-	-	-	-	-	-
	UMA	-	-	-	-	-	-	-
	VSM	-	-	-	-	-	-	-

		2022						
		Distressed			Non-distressed			
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
Loans to financial entities		-	-	9	29,571	-	-	29,580
Ordinary portfolio		-	-	9	29,571	-	-	29,580
	MXN	-	-	9	29,229	-	-	29,238
	Foreign currency	-	-	-	342	-	-	342
	UDIS	-	-	-	-	-	-	-
	UMA	-	-	-	-	-	-	-
	VSM	-	-	-	-	-	-	-
Portfolio under term extension		-	-	-	-	-	-	-
	MXN	-	-	-	-	-	-	-
	Foreign currency	-	-	-	-	-	-	-
	UDIS	-	-	-	-	-	-	-
	UMA	-	-	-	-	-	-	-
	VSM	-	-	-	-	-	-	-
Special repayment regime		-	-	-	-	-	-	-
	MXN	-	-	-	-	-	-	-
	Foreign currency	-	-	-	-	-	-	-
	UDIS	-	-	-	-	-	-	-
	UMA	-	-	-	-	-	-	-
	VSM	-	-	-	-	-	-	-
Loans to government entities		-	-	-	185,737	-	-	185,737
Ordinary portfolio		-	-	-	158,217	-	-	158,217
	MXN	-	-	-	142,498	-	-	142,498
	Foreign currency	-	-	-	15,719	-	-	15,719
	UDIS	-	-	-	-	-	-	-
	UMA	-	-	-	-	-	-	-
	VSM	-	-	-	-	-	-	-
Portfolio under term extension		-	-	-	27,520	-	-	27,520
	MXN	-	-	-	27,520	-	-	27,520
	Foreign currency	-	-	-	-	-	-	-
	UDIS	-	-	-	-	-	-	-
	UMA	-	-	-	-	-	-	-
	VSM	-	-	-	-	-	-	-
Special repayment regime		-	-	-	-	-	-	-
	MXN	-	-	-	-	-	-	-
	Foreign currency	-	-	-	-	-	-	-
	UDIS	-	-	-	-	-	-	-
	UMA	-	-	-	-	-	-	-
	VSM	-	-	-	-	-	-	-
Credit card business		-	-	487	23,402	252	-	24,141
Ordinary portfolio		-	-	487	23,402	252	-	24,141
	MXN	-	-	487	23,402	252	-	24,141
	Foreign currency	-	-	-	-	-	-	-
	UDIS	-	-	-	-	-	-	-
	UMA	-	-	-	-	-	-	-
	VSM	-	-	-	-	-	-	-
Portfolio under term extension		-	-	-	-	-	-	-
	MXN	-	-	-	-	-	-	-
	Foreign currency	-	-	-	-	-	-	-
	UDIS	-	-	-	-	-	-	-
	UMA	-	-	-	-	-	-	-
	VSM	-	-	-	-	-	-	-
Special repayment regime		-	-	-	-	-	-	-
	MXN	-	-	-	-	-	-	-
	Foreign currency	-	-	-	-	-	-	-
	UDIS	-	-	-	-	-	-	-
	UMA	-	-	-	-	-	-	-
	VSM	-	-	-	-	-	-	-
	Credit card business	-	-	-	-	-	-	-
Ordinary portfolio		-	-	-	-	-	-	-
	MXN	-	-	-	-	-	-	-
	Foreign currency	-	-	-	-	-	-	-
	UDIS	-	-	-	-	-	-	-
	UMA	-	-	-	-	-	-	-
	VSM	-	-	-	-	-	-	-

		2022						
		Distressed			Non-distressed			
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
		-	-	-	-	-	-	-
Portfolio under term extension		-	-	-	-	-	-	-
	MXN	-	-	-	-	-	-	-
	Foreign currency	-	-	-	-	-	-	-
	UDIS	-	-	-	-	-	-	-
	UMA	-	-	-	-	-	-	-
	VSM	-	-	-	-	-	-	-
Special repayment regime		-	-	-	-	-	-	-
	MXN	-	-	-	-	-	-	-
	Foreign currency	-	-	-	-	-	-	-
	UDIS	-	-	-	-	-	-	-
	UMA	-	-	-	-	-	-	-
	VSM	-	-	-	-	-	-	-
		-	-	-	-	-	-	-
Interest collected in advance		-	-	-	(759)	-	-	(759)
Total		$ -	$ -	$ 7,662	$ 809,063	$ 18,831	$ -	$ 835,556

The restructured and renewed portfolio as of December 31, 2022 is as follows:

	Amount of restructured and renewed portfolio during 2022
	Commercial Loans
Stage 1 restructured or renewed loans (d)	$ -
Stage 2 restructured or renewed loans	-
Stage 3 restructured or renewed loans	2,359
Restructured or renewed bullet loans transferred to stage 3 (a)	2,860
Loans maintained in stage 1 with the ability to pay (c)	88,779
Loans maintained in stage 2 with the ability to pay (c)	11,999
Consolidated loans transferred to stage 3 (b)	-
Loans restructured in stage 1 that were not transferred due to payment compliance (e)	-
Loans restructured in stage 2 that were not transferred due to payment compliance (e)	-

	Amount of restructured and renewed portfolio during 2022 -
	Government Entities
Stage 1 restructured or renewed loans (d)	$ -
Stage 2 restructured or renewed loans	-
Stage 3 restructured or renewed loans	-
Restructured or renewed bullet loans transferred to stage 3 (a)	-
Loans maintained in stage 1 with the ability to pay (c)	26,283
Loans maintained in stage 2 with the ability to pay (c)	-
Consolidated loans transferred to stage 3 (b)	-
Loans restructured in stage 1 that were not transferred due to payment compliance (e)	-
Loans restructured in stage 2 that were not transferred due to payment compliance (e)	-
	Consumer loans
Stage 1 restructured or renewed loans (d)	$ 740
Stage 2 restructured or renewed loans	184
Stage 3 restructured or renewed loans	754
Restructured or renewed bullet loans transferred to stage 3 (a)	-
Loans maintained in stage 1 with the ability to pay (c)	2,190
Loans maintained in stage 2 with the ability to pay (c)	174
Consolidated loans transferred to stage 3 (b)	502
Loans restructured in stage 1 that were not transferred due to payment compliance (e)	-
Loans restructured in stage 2 that were not transferred due to payment compliance (e)	-

		Mortgage loans
Stage 1 restructured or renewed loans (d)	$	4,823
Stage 2 restructured or renewed loans		1,926
Stage 3 restructured or renewed loans		2,334
Restructured or renewed bullet loans transferred to stage 3 (a)		-
Loans maintained in stage 1 with the ability to pay (c)		17,981
Loans maintained in stage 2 with the ability to pay (c)		2,402
Consolidated loans transferred to stage 3 (b)		-
Loans restructured in stage 1 that were not transferred due to payment compliance (e)		-
Loans restructured in stage 2 that were not transferred due to payment compliance (e)		-

a) Bullet loans correspond to loans with a single repayment of principal at maturity.
b) As stated in paragraph 110 of B-6.
c) In accordance with paragraphs 100 to 108 of B-6.
d) Loans that have already fulfilled sustained payment and are currently in stage 1.
e) In accordance with paragraph 112 of B-6 and in addition to compliance with payment of the aggregate amount of principal and interest due and modify the following original loan conditions such as: guarantees, interest rate, currency, payment date and/or extension of the credit facility.

As of December 31, 2022, the Group has real estate collateral of $16,652, and securities collateral of $219, for restructured commercial loans.

As of December 31, 2022, accrued initial origination fees by type of loan and average amortization period are summarized as follows:

	2022			
	By amortization period			
	1 to 5 years	6 to 15 years	More than 15 years	Total
Commercial or business activity	$ 1,125	$ 168	$ 114	$ 1,407
Consumer loans	1,120	205	-	1,325
Mortgage loans	3	33	505	541
Total	$ 2,248	$ 406	$ 619	$ 3,273

As of December 31, 2022, stage 3 loan portfolio balances fully reserved and eliminated from the consolidated statement of financial position are summarized as follows:

	2022
Commercial or business activity	$ 5,908
Consumer loans:	
Credit cards	1,317
Other consumer	2,637
	3,954
Mortgage loans	2,634
Total	$ 12,496

As of December 31, 2022, the amounts of the portfolio sold are summarized as follows:

Portfolio	2022
Commercial or business activity	$ 504
Consumer loans	23,562
Mortgage loans	1,422
Total	$ 25,488

As of December 31, 2022, the amount of undrawn credit facilities and letters of credit recorded in memorandum accounts amounted to $792,231. The allowance associated with undrawn lines of credit amounts to $163.

Lines of credit recorded in memorandum accounts - The amounts for credit facilities recorded in memorandum accounts are detailed below:

	2022
Irrevocable credit facilities	$ 22,227
Revocable credit facilities	676,495
Total	$ 698,722

The credits migrated to stage 3 in 2022 are detailed below:

Balance at the end (December 2021)	$ 22,699
IFRS 9 implementation	6,188
Balance at the end December 2021 (IFRS 9)	28,887
Inflow:	53,047
Transfer from performing to stage 1 and 2	51,250
Restructured	1,797
Outflows:	(58,086)
Transfers from performing to stage 1 and 2	(17,043)
Cash settlements	(10,117)
Restructured	(51)
Reductions (*Quitas*)	(4,435)
Write-offs	(26,440)
Balance at the end (December 2022)	$ 23,848

Guarantees received are broken down as follows:

	Amount of guarantees
Nature of guarantee:	
Guarantor (*Avalistas*)	$ 1,324,080
Mortgage	1,013,001
Government	165,729
Pledges	89,796
Documentary	87,457
Vehicles	87,253
Other Institutions of Nafin Loan	33,371
Cash Deposit	18,379
Securities	6,445
Comfort Letters	5,606
Sociedad Hipotecaria Nacional	4,735
Other Institutions of Bancomext Loan	4,689
Fondos de Fomento Fira	3,390
Warrants	875
Cash Investment	30
Total	$ 2,844,836

In addition to the table above, the terms and conditions associated with the collateral are detailed below:

The guarantees or collateral associated with the various transactions carried out by the entity must be duly documented and formalized, safeguarded and registered with the relevant official agencies, in order to ensure due legal certainty for their effective enforcement if necessary. The guarantees admitted must be in accordance with the type of transaction to be carried out and must be free of present and/or future limitations (unattachable assets, limitations of previous encumbrances, liability in personal guarantees), etc.

Interest and fee income recorded in financial margin for the year ended December 31, 2022, segmented by type of loan, is as follows:

Type of loan	2022 Interest	Fees	Total
Commercial loans -			
Denominated in MXN:			
Comercial	$ 47,077	$ 1,037	$ 48,114
Rediscounted portfolio	1,171	-	1,171
Leases	162	-	162
Denominated in foreign currency(MXN equivalent):			
Comercial	3,193	-	3,193
Rediscounted portfolio	98	-	98
Leases	91	-	91
Commercial or business activity	51,792	1,037	52,829
Loans to financial entities	2,289	7	2,296
Loans to government entities	14,349	41	14,390
Total, commercial loans	68,430	1,085	69,515
Consumer loans -			
Credit cards	72,776	641	73,417
Other consumer loans	6,846	305	7,151
	79,622	946	80,568
Total, consumer loans			
Mortgage loans	27,922	84	28,006
Total, see (note 33)	$ 175,974	$ 2,115	$ 178,089

Loans made, grouped by economic sector as of December 31, 2022 are shown below:

Sector	2022 Amount	2022 Concentration percentage
Private (companies and individuals)	$ 623,512	41.12%
Credit cards and consumer	366,527	24.17%
Mortgage	310,821	20.50%
Loans to government entities	185,737	12.25%
Financial	27,294	1.80%
Foreign (non-Mexican entities)	2,286	0.15%
Other overdue debts	-	0.00%
Total	$ 1,516,177	100.00%

Loans written off that were in stage 3 for fiscal year 2022 amount to $25,068, of which there are no loans made to related parties.

Related loans - As of December 31, 2022, loans made to related parties in accordance with Article 73 of the Banking Law total $41,308, including $20,558 of letters of credit, which are recorded in memorandum accounts.

Loan defaults - The following is a detail of loan defaults with a payment periodicity of less than 30 days (weekly, biweekly):

No Defaults	Stage 1 No Contracts	Stage 1 Amount	Stage 2 No Contracts	Stage 2 Amount	Stage 3 No Contracts	Stage 3 Amount
Daily amortization	423	$ 35	29	$ 1	32	$ 4
COMMERCIAL	423	35	29	1	32	4
1	335	32	-	-	-	-
2	41	1	-	-	-	-
3	10	1	-	-	-	-
>=4	37	1	29	1	32	4
Biweekly amortization	37,346	2,001	50,445	3,155	70,891	4,069
CONSUMER PAYROLL	25,303	1,116	36,828	1,968	53,517	2,653
1	15,888	673	637	34	91	4
2	9,415	443	1,527	107	136	5
3	-	-	9,727	501	171	9
>=4	-	-	24,937	1,326	53,119	2,635
CONSUMER PERSONAL	12,043	885	13,617	1,187	17,374	1,416
1	8,141	584	297	20	110	14
2	3,902	301	893	79	88	8
3	-	-	3,647	304	78	9
>=4	-	-	8,780	784	17,098	1,385
Total	37,769	$ 2,036	50,474	$ 3,156	70,923	$ 4,073

As of December 31, 2022, the remaining balance of the special CETES and special "C" CETES is as follows:

	Special CETES			Special "C" CETES		
Originating trust	No. of securities	Amount	Maturity date	No. of securities	Amount	Maturity date
423-9	10,656,993	$ 1,541	07/01/2027	468,306	$ 21	07/01/2027
Total (nota 7c)		$ 1,541			$ 21	

As of December 31, 2022, the loan portfolio recognized at fair value amounts to $5,100, which is comprised of principal of $5,184, uncollected accrued interest of $18 and a valuation of ($102).

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 Group.

– 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 Group, as well as the handling of exceptions.

Risk diversification

As of December 31, 2022, the Group 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, 2022, the maximum amount of financing with the three largest debtors amounts to $54,478 and represent 19.3% of the core capital.

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 Group criteria, are used to make decisions and allow greater efficiency in the handling of the high volume of loan applications.

(11) Restructured loans denominated in UDIs-

As of December 31, 2022, restructured loans denominated in UDIs amounted to $1,278.

(12) Allowance for loan losses

Loan ratings of the Group, 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.

2022					
		Allowances			
Risk category	Portfolio Exposure Rating Base	Commercial	Consumer	Mortgage	Total allowances
A1	$ 1,157,856	$ 1,733	$ 3,394	$ 231	$ 5,358
A2	73,430	474	1,423	24	1,921
B1	88,649	173	2,908	42	3,123
B2	47,066	119	2,021	70	2,210
B3	32,400	429	1,417	33	1,879
C1	42,195	699	2,578	224	3,501
C2	30,079	342	3,223	327	3,892
D	24,987	1,786	3,305	2,024	7,115
E	20,038	4,676	8,832	314	13,822
	1,516,700	10,431	29,101	3,289	42,821
Additional allowance	-	1,365	5,553	-	6,918
Total	$ 1,516,700	$ 11,796	$ 34,654	$ 3,289	$ 49,739

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, 2022 is determined based on the balance of the portfolio at such dates.

The allowance for loan losses as of December 31, 2022 covers 100% of non-performing interest.

The amount of the allowance for loan losses as of December 31, 2022 includes the classification of loan granted in foreign currency valued at the exchange rate in effect on said dates.

As of December 31, 2022, the allowance for loan losses represents 208.57%, respectively, of the stage 3 portfolio.

The allowance for loan losses as of December 31, 2022 amounts to $49,739, which includes an allowance of $42,821 calculated in accordance with the methodologies approved by the Commission under the General Standard Methodology and $6,918 of additional reserves created as part of the modification during 2022 to the Arrears (ATRi) variables, Probability of Default (PD), Loss Given Default (LGD) and Percentage of Payment (%PAGOiA) and "amount due."

As of December 31, 2022, allowance for loan losses by type of portfolio is as follows:

	2022
Commercial loans:	
Commercial or business activity	$ 10,916
Financial entities	336
Government entities	544
	11,796
Consumer loans	34,654
Mortgage loans	3,289
Total, loan allowances	$ 49,739

Changes in the allowance for loan losses – The analysis below shows the allowance for loan losses changes for the year ended December 31, 2022.

	2022		
	Stage 1-3	Additional	Total
Balance as of December 31, 2021	$ 34,941	$ -	$ 34,941
+/- (effect of change in criteria) *	8,052	-	8,052
Adjusted opening balance	42,993	-	42,993
Allowances charged to the year's earnings (1)	30,526	6,918	37,444
Applications and write-offs of the year	(30,611)	-	(30,611)
Exchange rate fluctuations	(67)	-	(67)
Other expenses	(20)	-	(20)
Balance at the end as of December 31, 2022	$ 42,821	$ 6,918	$ 49,739

* This effect was recorded against cumulative earnings in stockholders' equity.

(1) Recoveries of loan portfolio previously written off as of December 31, 2022 were $1,805, and are presented under allowance for loan losses in the consolidated income statement, so, the net allowance for loan losses variation in the year's earnings for the year ended December 31, 2022 is $(35,640).

Cancellation of allowance for loan losses -

The cancellation of the allowance for loan losses for 2022 amounts to $(30,611). The reasons for such cancellation are described below:

A. Foreclosure
B. Disposal
C. Write-off
D. Loan prepayment

(13) Receivables from insurance and bonding companies

As of December 31, 2022, insurance premium receivable is as follows:

		2022
Life	$	5,731
Car		2,617
Third party liability		2,390
Accident, health and pensions		844
	$	11,582

As of December 31, 2022, insurance premium receivable represents 3.47% of the total assets of BBVA Mexico's 3 insurance companies.

(14) Securitization transactions-

Mortgage portfolio securitizations

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

Irrevocable Trust for the Issuance of Securitized Debt Certificates by BBVA México - Invex, Grupo Financiero (881).

During 2022, Irrevocable Trust 881 entered into with Banco Invex, S. A. was terminated early; the related loan portfolio was already included in the Group's consolidated financial statements; therefore, there was no accounting effect derived from such termination. The main characteristics of the loan portfolio were as follows:

– Assignment Agreement

This agreement was entered into by the Group (Transferor), Banco Invex, S. A. (Transferee) and Monex Casa de Bolsa, S. A. de C. V. (Common Representative) for the purpose of assigning, by the Transferor, mortgage performing loan portfolio, to an irrevocable trust for the issuance of securitized debt certificates Trust (the Securitized Debt Certificates), free and clear from any liens and without reservation or limitation of title, together with all related applicable benefits, proceeds and accessories. The Transferor is liable only for the representations included in such agreement, for which reason the noncompliance with any of the representations shall only mean that the Transferor shall replace one or more of the ineligible loans or reimburse in cash the proportional part of the consideration; consequently, the Transferor does not assume any obligation regarding the mortgage loans. Furthermore, the right to receive the full amount obtained from the offering of the Securitized Debt Certificates agreed as consideration, minus the relevant issuance expenses.

– Irrevocable Trust Agreement for the Issuance of Securitized Debt Certificates

This agreement was entered into by and between the Group (Settlor and First Beneficiary), Banco Invex, S. A. (Trustee), and Monex Casa de Bolsa, S. A. de C. V. (Common Representative), which stipulates that the purpose of the Trust is the acquisition of mortgage loans, free and clear from liens and without any reservation or limitation of title, in accordance with the Assignment Agreement, for the issuance of Securitized Debt Certificates, which shall have such mortgage loans as a source of payment to be later offered to the investing public. The Trustee shall have all those rights and obligations deemed necessary to achieve such purpose.

This agreement stated the initial capacity that the certificate would have with respect to the total amount of the assigned portfolio, which amount is recorded in accounting under "Benefits receivable on securitization transactions" by the Institution.

– Loan Servicing Agreement

This agreement was entered into by and between the Group (Servicer), the Trustee and the Common Representative. In accordance with this Agreement, the Trustee engaged the Servicer to provide servicing services solely and exclusively in connection with the mortgage loans and any foreclosed real estate transferred under the Assignment Agreement.

Accordingly and to allow the Servicer to perform its obligations, the Trustee paid a servicing fee to the Servicer equivalent to the amount resulting from multiplying the unpaid balance of the principal of the mortgage loans by the percentage stipulated divided by 12.

The specific characteristics of each trust are detailed below:

	Trust 881
Execution date of trust agreement	August 3, 2009
Number of assigned loans	15,101
Amount of assigned portfolio	6,545
Securitized debt certificates issued	59,101,116
Par value per securitized debt certificate	100 pesos
Amount of issuance of securitized debt certificates	5,910
Series A1	562
Series A2	1,732
Series A3	3,616
Annual gross interest rate	-
Series A1	6.14%
Series A2	8.04%
Series A3	10.48%
Term of securitized debt certificates (years)	20.08
Value of global certificate (*constancia*)	635
Loan to value %	9.70%
Total, cash flow received after assignment	$ 5,733

(15) Other accounts receivable, net-

Other accounts receivable as of December 31, 2022 are as follows:

	2022
Debtors from settlement of transactions (a)	$ 107,530
Loans to officers and employees (b)	17,289
Sundry debtors	5,009
Collateral provided through OTC derivatives (c)	6,415
Other	3,263
	139,506
Allowance for uncollectible accounts	(371)
	$ 139,135

(a) Receivables from pending to be settle transactions as of December 31, 2022, are as follows:

	2022
Currency (a1)	$ 96,213
Investment in securities	5,652
Derivatives	5,665
	$ 107,530

(a1) As of December 31, 2022, the foreign currency balance is presented net of $97,987, coming from foreign currency purchases, whose balances are settled on a net basis.

(b) As of December 31, 2022, corresponds to officials and employees who currently belong to the Group's subsidiaries (see note 1).

(c) The receivables for collaterals granted by OTC derivatives as of December 31, 2022 are made up as shown below:

	2022		
	Acquisition cost	Accrued interest	Carrying amount
Collateral granted in derivatives:			
Actinver Casa Bolsa, S. A. de C. V.	$ 32	$ -	$ 32
Banca Mifel, S. A. IBM	125	-	125
Banco Actinver S. A. IBM	37	-	37
Banco Base, S. A. IBM	27	-	27
Banco Bilbao Vizcaya Argentaria	-	-	-
Banco Intercam, S. A. IBM	53	-	53
Banco Invex, S. A. IBM	158	1	159
Banco JP Morgan, S. A. IBM	47	-	47
Banco Inbursa	154	1	155
Banco Mercantil del Norte, S. A. IBM		-	-
Banco Monex S. A.	133	1	134
Banco Nacional de Comercio Exterior, S. N. C.	214	2	216
Banco Nacional de Obras	1,927	18	1,945
Banco Nacional de México, S. A.	940	6	946
Banco Regional del Norte	109	-	109
Banco Santander, S. A. IBM	275	3	278
Banco Scotiabank Inverlat, S. A. IBM	-	-	-
Banco Ve por más, S. A. IBM	133	1	134

	Acquisition cost	Accrued interest	Carrying amount
Bank of América México, S. A. IBM	207	1	208
Barclays Bank PLC	215	1	216
BNP Paribas NY Branch	-	-	-
Casa de Bolsa Finamex, S. A. B. de C. V.	83	-	83
Goldman Sachs	564	2	566
HSBC London	3	-	3
Merril Lynch Capital	145	1	146
Morgan Stanley	-	-	-
Nacional Financiera	545	5	550
Societe Generale	137	1	138
Standard Chartered Bank	-	-	-
UBS Ag Zurich	107	1	108
	$ 6,370	$ 45	$ 6,415

(16) Foreclosed assets, net-

Foreclosed assets account balance as of December 31, 2022 are as follows:

	2022
Buildings	$ 2,579
Land	971
Securities and rights	12
	3,562
Allowance for derecognition	(1,951)
Total	$ 1,611

During the year 2022, there are no assets foreclosed for the entity's use.

Changes in the reserve for derecognition of foreclosed assets are summarized below for the year ended December 31, 2022.

	2022
Balance as of December 31, 2021	$ 2,665
+/- (effect of change in criteria) *	(423)
Adjusted opening balance	2,242
Reserves created in:	
"Other operating income"	189
Reserve applications for foreclosure sales and others	(480)
Balance at the end as of December 31, 2022	$ 1,951

* This effect is the one that was recorded against the cumulative results within stockholders' equity (note 3)

Fully reserved foreclosed assets as of December 31, 2022 are presented below.

		2022
Buildings – Foreclosed value	$	1,155
Land – Foreclosed value		521
Securities and rights – Foreclosed value		12
Total	$	1,688

(17) Property, plant and equipment, net-

Property, plant and equipment as of December 31, 2022 is as follows:

		2022
Furniture and equipment	$	22,342
Office buildings		19,414
Installation costs		22,512
Land		5,537
		69,805
Less- Accumulated depreciation and amortization	(	33,458)
Total	$	36,347

For the year ended December 31, 2022, the amount charged to the year's results for depreciation is $2,495 and for amortization is $1,926.

(18) Leased assets (rights of use) and lease liabilities-

The Group leases real estate to install its branches. Leases are generally executed for a period of 5 years, of which, as specified in the contract, between 1 and 3 years are mandatory for both parties and the remaining years the mandatory term is only for lessor, at the end of the term there is the option to renew the lease after that date. Lease payments are renegotiated at the end of the lease. The amount of rental payments is mostly updated based on the INPC, annually.

Information on leases for which the Group is a lessee is presented below.

Assets under leases (right-of-use assets)

Right-of-use assets related to leased properties that do not meet the definition of investment property are made up as follows:

	Real Estate 2022
Balance as of January 1, 2022	$ 4,262
Accumulated depreciation	(2,163)
Additions	2,936
Derecognition	(12)
Net balance of the right-of-use asset	$ 5,023

Lease liabilities

The amount of its commitments as of December 31, 2022 amounts to $5,153.

Amounts recognized in results:

	2022
Financial margin:	
Interest on lease liabilities	$ 338
General expenses:	
Depreciation of the right-of-use asset	(2,154)
Expenses related to short-term leases	243
Expenses related to leases of low value assets, excluding shot term	-
Other	299

Total lease cash outflows during 2022 were $2,400.

(19) Permanent equity investments-

As of December 31, 2022, 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:

	Share 2022	2022
Fideicomiso No. 1729 INVEX - Disposal of Portfolio (1)	32.25%	$ 341
Servicios Electrónicos Globales, S. A. de C. V.	46.14%	484
Compañía Mexicana de Procesamiento, S. A. de C. V.	50.00%	212
Fideicomiso FIMPE	28.50%	17
Other investments recognized at cost	Various	129
Investment funds	Various	193
Total		$ 1,376

Investment in equity 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 the year ended December 31, 2022, dividends received from associated companies and from other permanent investments was $139, recorded in the consolidated statement of income, under "Participation in the net result of other companies."

For the year ended December 31, 2022, the Group recognized the participation in results of associates for $254.

(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 Group's contribution and the changes of its reserve in Trust 1729 as of December 31, 2022 is shown below:

Item	2022
Total, contributions	$ 747
Associated reserve	(270)
Net value	477
Allowance for derecognition	(136)
Net value	$ 341

As a result of successful recoveries by the Trust, during the year ended December 31, 2022, the Group recorded a release of the reserve on the participation of Trust 1729 that amounted to $188.

(20) Sundry creditors and other accounts payable-

For the year ended December 31, 2022, sundry creditors and other accounts payable are as follows:

		2022
Currency deliverable (note 5)	$	92,535
Other deposits and obligations		14,224
Provisions for administration and personnel expenses		9,233
Legal, tax and labor contingencies (note 40)		3,726
Other		9,186
Total	$	128,904

(21) Intangible assets (net) and goodwill-

Amortization of software is determined on the updated cost under the straight-line method, from the month following that of its purchase, applying the 20% rate.

As of December 31, 2022, amounts of historical cost and software amortization are detailed below:

Item		2022
Software investment	$	24,228
Cumulative amortization	(	19,529)
Total	$	4,699

For the year ended December 31, 2022, the amortization amount charged to the year's results is $1,771.

Goodwill as of December 31, 2022 is made up as follows:

		2022
BBVA México, S. A.	$	5,431
BBVA Seguros México, S. A. de C. V.		3,295
BBVA Pensiones México, S. A. de C. V.		143
Total	$	8,869

During 2022, Management carried out the annual evaluation of goodwill without identifying signs of impairment.

(22) Traditional deposits-

As of December 31, 2022, traditional deposits is made up as follows:

		2022
Demand deposits (a):		
Demand deposits	$	1,366,059
Time deposits:		
De público en general		239,165
Mercado de dinero		4,110
Negotiable instruments issued (b)		88,819
Inactive deposit global account		6,716
Total	$	1,704,869

(a) As of December 31, 2022, the average rates in pesos of demand deposits (unaudited) based on their short- and long-term enforceability are 1.43% and 7.10%, respectively,

(b) Negotiable instruments issued are detailed below:

Description of main programs

As of December 31, 2022, the Group has short- and long-term debt placed with a market value of $88,819, which is made up as follows:

	2022			
		Amount	Average term (days)	Average rate
Long term bank bonds	$	1,741	585	8.91%
Short term bank bonds		11,340	152	8.48%
Securitized debt certificates in MXN		31,787	685	10.18%
Securitized debt certificates in UDIs		17,486	1,286	4.36%
Securitized debt certificates in USD		1,967	27	4.90%
Subordinated and Senior Notes		24,498	729	3.13%
Total	$	88,819		

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.

In accordance with said regime, as of December 31, 2022, the Group generated an additional liquidity requirement of USD 7,930 million. Investment in liquid assets amounted to USD 10,941 million, resulting in a surplus of USD 3,011 million on that date.

(23) Bank and other borrowings-

Loans received as of December 31, 2022 are as follows:

	2022		
	MXN	Rate in Average %	Average Term (days)
Loans from other entities:			
Short-term:			
Central Bank	$ 101	10.83%	182
Trusts created with respect to Agriculture (FIRA)	5,017	9.53%	149
	$ 5,118		

	2022		
	MXN	Rate in Average %	Average Term (years)
Long term:			
FIRA	$ 6,860	9.15%	3
Banco de México	23,768	6.88%	2
Fondo de Operación y Financiamiento Bancario a la Vivienda (FOVI)	27	12.99%	25
	$ 30,655		

	2022		
	US Dollars MXN Equivalent	Rate in Average %	Average Term (days)
Loans from other entities:			
Short-term:			
FIRA	$ 1,239	4.35	128
Instituto de Crédito Oficial (ICO)	171	5.43	153
	$ 1,410		

	US Dollars MXN Equivalent	2022 Rate in Average %	Average Term (years)
Long term:			
ICO	$ 1,207	3.83	2
FIRA	772	5	3
	$ 1,979		

	Total amounts
Short term	$ 6,528
Long term	32,634
	$ 39,162

The Group has a liquidity facility with the Central Bank in an amount equivalent to up to the DRM (see note 5). Such facility amounted to $33,903 as of December 31, 2022, without considering interest. As of December 31, 2022, no borrowings were made under said facility.

In 2022, the Group received four loans from the Central Bank corresponding to facility 8 "financing to multiple banking institutions backed by corporate loans" in an amount of $23,608, which are backed up with a restricted portfolio of $22,148 (see note 10). The amount of accrued interest as of December 31, 2022 is $213.

(24) Technical reserves-

As of December 31, 2022, technical reserves are as follows:

	2022
BBVA Seguros México	
Reserve for current risks:	
Direct life insurance	$ 140,082
Direct accidents and illness	92
Direct insurance damages	5,645
	$ 145,819

		2022
Reserve for unfulfilled obligations:		
Claims incurred	$	2,981
Claims incurred and paid on time		677
Past due US dollars to be paid		789
Claims incurred but not reported		1,452
		5,899
Catastrophic risk reserve		9,176
		160,894
Premiums in deposit		509
Total, BBVA Seguros México reserves	$	161,403
BBVA Seguros Salud México		
Current risk reserve	$	683
Reserve for unfulfilled obligations:		
Claims incurred		102
Claims incurred but not reported		356
	$	458
		1,141
Premiums in deposit		15
Total, BBVA Seguros Salud México reserves	$	1,156
BBVA Pensiones México		
Current risk reserves:		
Mathematical reserve for basic benefits:		
Labor risk:		
Permanent disability	$	20,630
Death		11,061
Life and disability:		
Disability		27,138
Death		64,165
Retirement, Unemployment and Old Age		
Retirement		17,770

	2022
Mathematical reserve for additional benefits:	
Labor risks:	
Permanent disability	18
Death	14
Life and disability:	
Disability	41
Death	64
Reserve for unfulfilled obligations	351
Contingency reserve	2,804
Reserve for specialized insurance	704
	144,760
Premiums in deposit	62
Total, BBVA Pensiones México reserves	$ 144,822
Total, BBVA Seguros México	161,403
Total, BBVA Seguros Salud México	1,156
Total, technical reserves	$ 307,381

(25) Labor obligations-

The balance as of December 31 is as follows:

	2022
Employee participation in profits	$ 3,520
Net defined benefit liability	3,787
Plan porvenir recoveries receivable	(158)
	$ 7,149

Net defined benefit liabilities

In accordance with the labor reform as of July 1, 2021, employees who were part of subsidiaries the activity of which was the provision of services, were transferred among the Group's operating subsidiaries, as well as the assets and labor liabilities related to said personnel.

As of December 31, 2022, the information on the net defined benefit (liability) is as follows:

	2022						
	Other retirement benefits						
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon death	Retiree sports club	Plan Porvenir Bonus	Statutory severance	Total
Defined benefit obligations	$ (17,588)	$ (29,385)	$ (1,944)	$ (85)	$ (431)	$ (2,151)	$ (51,584)
Plan assets	15,243	30,170	1,878	-	349	157	47,797
Net defined benefit (liabilities)	$ (2,345)	$ 785	$ (66)	$ (85)	$ (82)	$ (1,994)	$ (3,787)

As of December 31, 2022, defined benefit obligations are as follows:

	2022						
	Other retirement benefits						
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon death	Retiree sports club	Plan Porvenir Bonus	Statutory severance	Total
Initial balance	$ 15,332	$ 31,143	$ 1,804	$ 112	$ 247	$ 2,049	50,687
Labor cost of service	101	958	8	5	48	(56)	1,064
Financial cost	1,516	2,976	181	10	33	196	4,912
Actuarial losses and (gains) in the period	2,164	(4,477)	(28)	(37)	125	293	(1,960)
Benefits paid	(1,525)	(1,214)	(21)	(5)	(22)	(327)	(3,114)
Early reduction of obligations	-	(1)	-	-	-	(4)	(5)
Defined benefit obligations at year's end	$ 17,588	$ 29,385	$ 1,944	$ 85	$ 431	$ 2,151	$ 51,584

As of December 31, 2022, Plan Assets ("PA") are as follows:

	2022						
	Other retirement benefits						
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon death	Retiree sports club	Plan Porvenir Bonus	Statutory severance	Total
PA at the beginning of the year	$ 12,777	$ 33,954	$ 1,610	$ -	$ 363	$ 123	$ 48,827
Contributions made by the entity	785	1	38	-	1	10	835
Expected return of PA	1,242	3,271	170	-	36	12	4,731
Actuarial earnings (losses) generated in the period	(930)	(2,948)	81	-	(29)	6	(3,820)
Benefits paid	(1,525)	(1,214)	(21)	-	(22)	(3)	(2,785)
Transfer of PA	2,894	(2,894)	-	-	-	-	-
PA at the end of the year	$ 15,243	$ 30,170	$ 1,878	$ -	$ 349	$ 148	$ 47,788

	2022						
			Other retirement benefits				
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon death	Retiree sports club	Plan Porvenir Bonus	Statutory severance	Total
Labor cost of service actual:							
Service cost	$ (101)	(958)	(8)	(5)	(48)	56	(1,064)
Past services due to early reduction	-	1	-	-	-	4	5
Interest costs of defined benefit obligations	(1,516)	(2,976)	(181)	(10)	(33)	(196)	(4,912)
PA interest income	1,242	3,271	170	-	36	12	4,731
Recycling of net asset (liability) remeasurements for defined benefits to be recognized in OCI:							
Gains (losses) of defined benefit obligations	(303)	421	(10)	2	8	(121)	(3)
Gains (losses) of PA	(27)	(176)	1	-	(1)	-	(203)
Income (cost) of defined benefits	$ (705)	$ (417)	$ (28)	$ (13)	$ (38)	$ (245)	$ (1,446)

As of December 31, 2022, remeasurements of the defined benefit net asset (liability) recognized in OCI is as follows:

	2022						
			Other retirement benefits				
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon death	Retiree sports club	Plan Porvenir Bonus	Statutory severance	Total
Reconciliation of actuarial (losses) gains							
Initial balance of gains (losses) on the obligation	$ 4,946	$ (1,440)	$ 200	$ (20)	$ (171)	$ 799	$ 4,314
(Losses) gains on the obligation	2,164	(4,477)	(28)	(37)	125	293	(1,960)
OCI capitalization							
Recycling of remeasurements on the obligation	(303)	421	(10)	2	8	(121)	(3)
Initial balance (losses) gains in return on assets	6,807	(5,496)	162	(55)	(38)	971	2,351
Initial balance (losses) gains in return on assets	(70)	(229)	8	-	1	-	(290)
Gains (losses) in the return of Pas	930	2,948	(81)	-	29	(6)	3,820
OCI capitalization							
Recycling of remeasurements on the return of the PAs	(27)	(176)	1	-	(1)	-	(203)
Final balance (losses) gains in the return of the PAs	833	2,543	(72)	-	29	(6)	3,327
Ending balance of net (losses) gains recognized in OCI	$ 7,640	$ (2,953)	$ 90	$ (55)	$ (9)	$ 965	$ 5,678

The sports club plan for retirees was originated by the right of employees to continue receiving sports services once they retire, in this scheme the Group pays a portion of the fees and the retirees the other.

As of December 31, 2022, the statutory severance plan and the sports club plan for retirees have no assets for financing the Group's defined benefit obligations.

As of December 31, 2022, the assets of the different plans were mainly invested in government securities.

The main actuarial assumptions used in 2022 are shown below:

	2022
Nominal discount rate used to calculate the present value of obligations	10.68%
Expected return rate for plan assets	10.68%
Salary increase rate	4.50%
Pension increase rate	2.69%
Medical services increase rate	8.04%
Nominal increase rate on future salaries	4.50%
Long term inflation rate	3.50%
Increase rate for minimum wage	20.00%

(26) Subordinated debt-

As of December 31, 2022, they are analyzed as follows:

	2022
USD 200 million, 5.35% senior notes, issued November 2014, payable semiannually from May 12, 2015, due November 12, 2029; the number of outstanding securities is 200,000 with a nominal value of USD 1,000 each.	$ 3,902
USD 1,000 million, 5.125% senior notes, issued January 2018, payable semiannually from July 17, 2018, due January 18, 2033; the number of outstanding securities is 1,000,000, with a nominal value of USD 1,000 each.	19,509
USD 750 million, 5.875% senior notes, issued September 2019, payable semiannually from March 13, 2020, due September 13, 2034; the number of outstanding securities is 750,000 with a nominal value of USD 1,000 each.	14,633
Unpaid accrued interest	741
Issuance expenses	(162)
Total	$ 38,623

(27) Related parties-

Material balances and transactions with related parties in accordance with the provisions of FRS C-13 "Related parties" are as follows:

	2022
Banco Bilbao Vizcaya Argentaria, S. A.:	
Derivative financial instruments [1]	$ (736)
Repurchase/resale agreements payable [1]	3,252
BBVA Axial Tech, S. A. de C. V.	
(formerly Aplica Tecnología Avanzada, S. A. de C. V.):	
Deposits [1]	$ 931
Income:	
Interest[2]	$ 13
Administrative services fees [2]	31

	2022
Expenses:	
Processing and system development [2]	$ 3,933
BBVA Leasing México, S. A. de C. V.:	
Deposits [1]	$ 235
Loan portfolio [1]	2,600
Income:	
Interest [2]	$ 107
Administrative services fees [2]	48

[1] Balances of accounts payable/receivable as of December 31, 2022.
[2] It relates to the income or (expense) recorded in the consolidated income statement for years ended on December 31, 2022.

As of December 31, 2022, there are other related parties transactions that are regarded as unmaterial and have not been disclosed.

(28) Income tax and employee profit sharing-

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

Main items affecting the Group taxable income were the annual inflation adjustment, accruals, the market valuation results, the pre-maturity of derivate 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 year ended December 31, 2022 of the income tax rate and the effective tax rate, as a percentage of the income before income tax, is as follows:

	2022	
	Tax	Rate
Statutory rate	$ 34,512	30.00%
Increase (reduction from):		
Non-deductible expenses	565	0.49%
Effects of annual inflation	(8,596)	(7.47) %
Reversal on revenues/expenses from previous years, net	4,697	4.08%
Other accruals	(723)	(0.63) %
Effective rate	$ 30,455	26.47%

Other tax matters:

As of December 31, 2022, balances are as follows:

	2022
Net after-tax profit account	$ 35,261
Capital contributions account	258,068

The Group 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:

	2022	
	Temporary differences	
	Basis	Deferred Income tax
Deferred tax assets:		
Allowance for loan losses (not deducted)	$ 59,148	$ 17,744
Fees and interest charged in advance	10,014	3,005
Provisions	12,877	3,863
Other assets	11,220	3,366
Foreclosed assets	3,105	932
Valuation of available-for-sale securities (stockholders' equity)	13,196	3,959
Market valuation through profit or loss	1,748	524
Valuation of hedging derivative instruments	2,047	614
Reserve of pension compensation	2,530	759
Deferred employee profit sharing	111,996	6,149
Total, assets	227,881	40,915
Deferred tax liabilities:		
Market valuation (results)	4,345	1,304
Pre-maturity of derivative financial transactions	(9,357)	(2,807)
Valuation of available-for-sale securities (stockholders' equity)	943	283
Pensions reserve	-	-
Other liabilities	7,957	2,387
Total, liabilities	3,888	1,167
Net deferred assets	$ 223,993	$ 39,748
Charge in year's results		$ 6,532
Net charge in OCI		$ (12,913)

To determine the accrued and deferred profit-sharing, as a result of the labor reform referred to in note 1 to the attached 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 Group shall apply 10% to the profit-sharing 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 profit-sharing received by the employee in the previous three years.

c) If the profit-sharing determined in subsection (a) is greater than the sum of the profit-sharing allocated to each of the employees according to subsection (b), the latter must be considered the profit-sharing 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 profit-sharing determined in subsection (a) is less than or equal to the amount determined in subsection (b), the profit-sharing of subsection (a) must be the profit-sharing accrued in the period.

For the year ended December 31, 2022, the amount of the profit-sharing accrued amounted to $3,566, which was recognized in the consolidated income statement under "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 profit-sharing, the accrued profit-sharing shall be divided by the profit-sharing determined at 10% of the tax profit; the ratio obtained must be multiplied by the profit-sharing statutory rate of 10% in order to obtain the factor to be applied in determining and calculating the deferred profit-sharing. For the year ended December 31, 2022, the factor derived from the mechanics mentioned above amounted to 5.490%.

The Group has recognized deferred profit-sharing derived from the temporary differences that originate significant portions of the assets and liabilities of deferred profit-sharing as of December 31, 2022, which are detailed below:

	2022	
	Temporary differences	
	Basis	Deferred employee profit sharing
Deferred tax assets:		
Allowance for loan losses (not deducted)	$ 59,148	$ 3,304
Fees and interest charged in advance	10,014	536
Provisions	12,828	659
Other assets	5,119	306
Foreclosed assets	3,108	174
Valuation of available-for-sale securities (stockholders' equity)	13,196	739
Market valuation through profit or loss	1,748	5
Valuation of hedging derivative instruments	2,047	115
Reserve of pension compensation	2,636	141
Total, assets	109,844	5,979

Deferred tax liabilities:		
Market valuation (results)	5,289	249
Pre-maturity of derivative financial transactions	(9,357)	(524)
Pensions reserve	-	-
Other liabilities	113	4
	1,803	101
Total, liabilities	(2,152)	(170)
	$ 111,996	$ 6,149
Credit in year's results		$ 5,286
Net charge in OCI		$ 863

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.

(29) Stockholders' Equity -

(a) Structure of capital stock

The Group's capital stock as of December 31, 2022 is as follows:

	Number of shares at Par Value of MXN 0.11		
	Capital stock	Issued shares Unsubscribed	Paid-in Capital
Series "B"	4,605,999,999	(60,462,657)	4,545,537,342
Series "F"	4,794,000,001	(62,930,521)	4,731,069,480
	$ 9,400,000,000	(123,393,178)	9,276,606,822

	Historical amount		
	Capital stock	Capital stock Unsubscribed	Paid-in Capital
Series "B"	$ 507	(7)	$ 500
Series "F"	527	(7)	520
Subtotal	$ 1,034	(14)	$ 1,020
Reordering of capital adjustments			15,191
Adjustment to pesos as of December 2007			2,725
2009 capital decrease and increase, net			(9,137)
Total			$ 9,799

On February 28, 2022, pursuant to an General Ordinary Shareholders' Meeting, the distribution of dividends up to the amount of $53,945 was authorized, from the "Results from previous years," of which $20,659, $16,140 and $17,146 were paid to shareholders on May 26, September 22 and December 14, 2022 at a rate of $2.22699963428503, $1.73986030772837 and $1.84830513236125 pesos per share, respectively.

(b) Comprehensive income-

Comprehensive income for the year ended December 31, 2022, amounted to $79,452, net of deferred taxes, which is presented in the consolidated statement of changes in stockholders' equity and represents the result of the total activity of the Group and its subsidiaries during the year, and includes the items that, in accordance with the applicable accounting criteria, are recorded directly in stockholders' equity (results from the valuation of financial instruments to collect or sale, results from the valuation of derivative financial instruments of cash flow hedges, cumulative effect by conversion and remeasurements for defined employee benefits).

(c) Stockholders' equity restrictions-

Series "F" shares represent, at all times, no less than 51% of the capital stock and may only be purchased, directly or indirectly, by a Foreign Financial Institution, as defined in the Law. Series "B" shares may represent up to 49% of the capital stock, shall be subscription free and shall be governed by article 74 of said Law.

At no time, foreign business entities that exercise authority functions, according to article 24 of the Law, may participate in any way in the Group's capital. Domestic financial entities, even those that form part of the Financial Group, may not participate either, except when acting as institutional investors in terms of article 27 of the Law.

The Group's net income is subject to the legal provision requiring 5% of profits for each period to be set aside to increase the legal reserve until it reaches 20% of the capital stock. As of December 31, 2022, the Group has complied with the required reserve amount with respect to the historic paid-in share capital. This reserve may not be distributed amongst shareholders while the Group remains in existence, except as dividends in shares.

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

On May 6, 2022, the CNBV issued a recommendation through official communication P147/2022 regarding payment of dividends, repurchase of shares and any other benefit to shareholders of banking institutions, leaving the previous one dated April 16, 2021 without effect, so that commercial banks located in the assumptions contained in the recommendation and that require paying dividends, can do so without adversely affecting their ability to absorb potential losses that may still arise, as a result of the current environment and that they have sufficient funds to develop their purpose in support of the economy, up to the projected amount of dividends for 2022 in the 2021-2023 Capital Adequacy Assessment, provided that: (i) the ESC for the years 2022 and 2023 show that commercial bank would not be subject to the Preventive Action Plan (PAP). Institutions that require PAP will not be able to order dividends during 2022 until the strategy for the formalization of capital contributions or the different actions to be implemented to guarantee the minimum levels of regulatory capital is authorized by the relevant supervisor, (ii) commercial banks that have not forecast the payment of dividends in the ESC for the year 2022, and that finally decide to make any distribution of such dividends during the current fiscal year, must previously justify to the CNBV the change of decision, detailing the impact on the projections in the scenarios, (iii) commercial banks must file a report with the Commission showing that the reserves for credit risk, including additional reserves, including additional reserves, would be sufficient to support expected losses by 2022, (iv) with respect to local systemically important commercial banks, they must previously justify to the Commission that the level of dividends to be declared is consistent with a strategy aimed at complying with the minimum capitalization index that will be required with the entry into force in December 2022 of the Net Capital Supplement referred to in Article 2 Bis 5 of the Regulations.

(d) Bank'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 core 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.

Additionally, under this method a higher weighting is assigned to the stage 3 portfolio (115% and 150%) and the mortgage loans will have a factor of 50% to 100% depending on the down payment level and associated guarantees, which serve to increase the down payment percentage and assign a better weight.

– *Capitalization by 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 by market risk*

According to amendments to the capitalization rule in effect as of October 2016, 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 Clearing Risk is eliminated.

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 2019. This requirement is additional to requirements generated in the other RCs.

– *Capitalization by credit risk*

As of September 2021, the regulation incorporates changes in group VI implemented in the RC-08A report for credit risk using the standard method.

The Institution's Capitalization Ratio as of December 31, 2022 amounted to 19.19%, which is 5.57% points higher than the minimum required, including the capital conservation supplement of 2.5%, the supplement for Multiple Banking Institutions of Local Systemic Importance of 1.5% and the supplement to the net capital according to Article 2 bis 117 ñ of 1.625%.

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).

– *Core capital:*

Item		Amount
Stockholders' equity, without cumulative effect per conversion	$	299,954
Deduction of investments in subordinated instruments		-
Deductions of investments in shares of financial entities	(	666)
Deductions of investments in shares of non-financial entities	(	83)
Organization expenses and other intangibles	(	6,376)
Deferred taxes for fiscal losses	(	9,474)
Total, core capital	$	283,355

– *Supplementary capital:*

Item		Amount
Obligations and capitalization instruments	$	38,042
Allowances for loan losses		1,783
Total, supplementary capital		39,825
Net capital	$	323,180

Item	Amount	Maturity Date	Calculation Percentage	Weighted Average (Basic Capital)
Computable capitalization instruments	$ 3,902	12/11/2029	100%	$ 3,902
Computable capitalization instruments	19,508	18/01/2033	100%	19,508
Computable capitalization instruments	14,632	13/09/2034	100%	14,632
Total	$ 38,042			$ 38,042

Assets at risk are broken down as follows:

– *Assets subject to market risk:*

Item	2022 Risk-weighted assets	2022 Capital requirement
Transactions in MXN, with nominal rate	$ 340,537	$ 27,243
Transactions in MXN, with a real rate or denominated in UDIs	15,229	1,218
Rate of return with respect to the general minimum wage	3,673	294
Interest rate of transactions in foreign currency with nominal rate	21,081	1,686
Positions in UDIs or with return referred to the INPC	120	10
Transactions with respect to the general minimum wage	310	25
Currency positions or with return indexed to exchange rate	6,466	517
Positions in shares or with return indexed to the price of a share or group of shares	3,779	302
Spread	6,249	500
Gamma	1,683	135
Vega	301	24
Total, market risk	$ 399,428	$ 31,954

– *Assets subject to credit risk:*

Item	2022	
	Risk weighted assets	Capital requirement
Weighted at 0%	$ -	$ -
Weighted at 10%	847	68
Weighted at 11.5%	2,328	186
Weighted at 20%	14,332	1,147
Weighted at 25%	196	16
Weighted at 50%	5,583	447
Weighted at 57.5%	581	46
Weighted at 60%	67	5
Weighted at 65%	23	2
Weighted at 75%	152,224	12,178
Weighted at 85%	15,990	1,279
Weighted at 90%	608	49
Weighted at 100%	244,383	19,551
Weighted at 115%	4,670	374
Weighted at 120%	176	14
Weighted at 150%	309	25
Weighted at 1250%	127	10
Internal Methodology	649,572	51,966
C V A (RC06 B)	14,029	1,122
E C C (RC 06 C)	24	2
Derivative counterparty	12,167	973
Derivative related	11,235	899
Total, credit risk	$ 1,129,471	$ 90,359
Operational risk	154,975	12,398

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 37.

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

Stress tests are performed annually, which are required by the Commission to assess the Institution's capital adequacy to continue intermediating funds and granting credit under various 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 that it can use in different stress scenarios that could cause a deterioration in its solvency position in terms of capital and/or liquidity, which, in the event of an adverse financial and balance sheet structure scenario, allow it to access local and international wholesale markets to obtain financing and capital, to have high quality assets for sale and/or securitization, and to discount securities both in the market and with the Central Bank.

It is then 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 2022," in compliance with the obligation to disclose information on the Capitalization Index, available on the webpage https://investors.bbva.mx.

(30) 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 Bank's core capital. As of December 31, 2022, the Bank kept an exchange rate risk position within the mentioned limit.

As of December 31, 2022, the Group has assets and liabilities in foreign currency, mainly in USD, translated at the closing exchange rate of MXN 19.5089 per USD issued by the Central Bank, as shown below:

	2022
	Figures in millions
Assets	$ 23,431
Liabilities	(22,075)
Net assets position in foreign currency	$ 1,356
Net assets position in MXN equivalent	$ 26,475

As of February 24, 2023, the date of authorization of the financial statements, the closing exchange rate determined by the Central Bank was MXN 18.3998 per US dollar.

Pursuant to the regulations of the Central Bank, the position reported to that institution as of December 31, 2022 was USD 198 million long, which includes foreign currency option positions, and excludes assets and liabilities that are not computable.

The Group performs transactions in foreign currency, primarily in USD, Euros and Pound. The Group 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.

(31) Position in UDIs-

As of December 31, 2022, the Institution had UDI-denominated assets and liabilities translated into Mexican pesos, considering the prevailing conversion rate of MXN 7.646804 per UDI, as follows:

	2022
	UDIs in millions
Assets	22,046
Liabilities	(4,971)
Net asset position in UDIs	17,075
Net asset position MXN (nominal value)	130,568

As of February 27, 2023, the date of authorization of the financial statements, the last known UDI exchange rate was MXN 7.738086 per UDI.

(32) 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 2022, contributions made by the Bank to IPAB for insurance deposit amounted to $7,024.

(33) Financial margin-

For the years ended December 31, 2022, the main items comprising the financial margin were as follows:

	2022		
	MXN	US Dollars MXN equivalent	Total
Interest income:			
Interest and returns on loan portfolio (note 10)	$ 172,746	$ 3,228	$ 175,974
Interest and return on securities (note 7(a), 7(b) and 7(c))	53,547	2,291	55,838
Interest on cash and cash equivalents	4,572	3,049	7,621
Interest and premiums on repurchase/resale agreements and securities lending (note 8(b))	4,024	-	4,024
Interest on margin accounts	127	-	127
Interest on derivative financial instruments for trading	-	-	-
Interest on hedging financial instruments	2,707	280	2,987
Interest on embedded derivative financial instruments	-	-	-
Interest on subordinated obligations	47	-	47
Fee income on loan originations (note 10)	1,954	161	2,115
Other	448	-	448
Total, interest income	$ 240,172	$ 9,009	$ 249,181

	2022		
	MXN	US Dollars MXN equivalent	Total
Interest expense:			
Interest on deposits	$ (28,061)	$ (2,730)	$ (30,791)
Interest on bank and other borrowings	(2,840)	(32)	(2,872)
Interest on derivative financial instruments for trading	(1,632)	-	(1,632)
Interest on hedging financial instruments	(606)	(1)	(607)
Interest on embedded derivative financial instruments	-	-	-
Interest on subordinated obligations	(82)	(3,574)	(3,656)
Interest and premiums on repurchase/resale agreements and securities lending (note 8(b) and 8(c))	(19,896)	-	(19,896)
Expenses on loan originations	(1,562)	-	(1,562)
Other	(1,788)	(58)	(1,846)
Total, Interest expense	$ (56,467)	$ (6,395)	$ (62,862)
Financial margin	$ 183,705	$ 2,614	$ 186,319

(34) Commissions and fee received and paid-

For the year ended December 31, 2022, the main items for which the Group recorded commissions and fee income in the consolidated statement of income were as follows:

	2022
Credit cards and debit cards	$ 35,880
Bank fees	7,465
Investment funds	4,374
Insurance	45
Other	11,949
Total	$ 59,713

During 2022, the amount of revenues earned by the Group in trust operations amounted to $510.

For the year ended December 31, 2022, the main items for which the Group recorded commission and fee expense in the consolidated statement of income were as follows:

	2022
Credit cards	$ (14,433)
Effective credit card reward points	(3,783)
Promotion fund collateral	(1,332)
Cash management and fund transfers	(1,306)
Credit placement	(1,101)
Purchase and sale of securities	(171)
Appraisals	(418)
Sale of foreclosed assets	-
Insurance	-
Other	(4,748)
Total	$ (27,292)

(35) Financial intermediation income-

As of December 31, 2022, the main items comprising the financial intermediation income were as follows:

	2022
Valuation result:	
Derivatives for trading purposes	$ (2,022)
Derivatives for hedging purposes	(39)
Embedded derivatives	269
Currency	13,694
Investments in financial instruments (note 7.a and 7.a.3)	(952)
	10,950
Purchase-sale result:	
Derivatives for trading purposes	583
Derivatives for hedging purposes	25
Embedded derivatives	432
Currency	-
Investments in financial instruments	3,429
	4,469
Total	$ 15,419

(36) Information by segment-

The Group 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, the insurance sector, among others. Performance evaluation, as well as the management of the risks of the different activities, is based on the information produced by the Group's business units, more than the legal entities in which the results generated are recorded.

Below the revenues obtained during the years 2022, which show the different segments as indicated above.

	2022					
Item	Total	Commercial Bank	Corporate and Government Banking	Treasury Transactions	Insurance	Other Segments
Financial margin	$ 186,319	105,242	43,399	$ 7,162	18,677	11,839
Allowance for loan losses	(35,640)	(34,009)	(1,611)	-	(20)	-
financial margin adjusted for allowance for loan losses	150,679	71,233	41,788	$ 7,162	18,657	11,839
Fee income, net	32,421	17,590	16,060	866	(3,642)	1,547
Premium income (net)	37,206	-	-	-	37,206	-
Net increase in technical reserves	(5,594)	-	-	-	(5,594)	-
Net cost of loss rate, claims or other obligations pending compliance	(35,940)	-	-	-	(35,940)	-
Intermediation result	15,419	3,724	1,236	7,071	3,726	(338)
Other operating income	(8,040)	(723)	177	128	(1,194)	(6,428)
	186,151	$ 91,824	$ 59,261	$ 15,227	$ 13,219	$ 6,620
Administrative and promotional expenses	(71,110)					
Other operating income	115,041					
Equity in income of non-consolidated subsidiaries and associates	254					
Income before income tax	115,295					
Income tax	(30,455)					
Income before non-controlling interest	84,840					
Non-controlling interest						
Net income	$ 84,840					

(37) Risk management and derivatives from the Bank, as the most significant subsidiary (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 accordance 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 data:

– *Participation of the governing bodies:*

The Bank'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, 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 Bank 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 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 Bank 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.

Tools and analyses

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 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:

The Institution's statement of financial position is broken-down, for risk purposes, as follows:

a) Market Risk:

Transactions and investment portfolios – Investment in financial instruments, 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.

Counterparty Risk – Quantifies the potential loss that a counterparty default would cause, given a level of confidence, from now until the expiration of all transactions with that counterparty. Counterparty risk measurement includes the identification of products subject to counterparty risk (derivatives, collateralized financing and interbank deposits).

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.

Sales volume	Segment
Between MXN 60 million and USD 50 million	Enterprises
Greater than USD 50 million	Large Enterprises (Corporate)

c) Liquidity risk:

Banking business, with positions on and off-balance, including loans, traditional deposits, investments in financial instruments, 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.

d) Concentration Risk:

This type of risk applies to Negotiable Financial Instruments (NFI), Financial Instruments to Collect or Sell (FICS) and Financial Instruments to Collect Principal and Interest (FICPI) when an important portion of the transactions of an entity is carried out with one or more counterparties, which are similarly affected by economic changes and other conditions.

However, currently there is no such risk in investments in financial instruments.

e) Interest Rate Risk:

Investments in financial instruments.- This risk applies to Financial Instruments to Collect or Sell (FICS) and Financial Instruments to Collect Principal and Interest (FICPI) and involves that the fair value or future cash flows of a financial instrument fluctuate due to changes in the market interest rate.

f) Currency Risk:

Investments in financial instruments.- This type of risk applies to Negotiable Financial Instruments (NFI), Financial Instruments to Collect and Sell (FICS) and Financial Instruments to Collect Principal and Interest (FICPI) and occurs when the future value or cash flows of a financial instrument can be modified by fluctuations in the exchange rate as they are denominated in foreign currency.

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 that was not paid, plus the net of the costs incurred for its recovery and it is considered as an unavoidable loss of the loan making business over time. The calculation of the global EL of each portfolio requires first determining the EL for each borrower; therefore, the model initially focuses on an individual scope.

Stage 1 and 3 Expected Loss (Standard Model Portfolios) = Probability of Default x Loss Given Default x Exposure at Default Stage 2 Expected Loss periodic repayment loans and revolving loans (Standard Model Portfolios) = (Probability of Default x Loss Given Default x Exposure at Default / 1+ Annual interest rate charged to client)x[1-(1-Probability of Default)^n/ Probability of Default] - Probability of Default x Loss Given Default x Theoretical annual amortizable payment / Annual interest rate charged to client)x1+ Annual interest rate charged to client x[1-(1-Probability of Default)^ Remaining term/PD]+ Probability of Default x Loss Given Default x Theoretical annual amortizable payment/annual interest rate x Annual interest rate charged to client +pdx[1-(1- Probability of Default /1+ interest rate charged)^ Remaining term] Stage 2 Expected Loss loans with a single repayment = Probability of Default x Loss Given Default x Theoretical annual amortizable payment / Annual interest rate charged to client +Loss Given Default x[1-(1- Probability of Default /1+ interest rate charged)^ Remaining term]Stage 1 Expected Loss (Portfolios Model NIFC 16) =(Probability of Default (Marginal) x Loss Given Default Marginal x Exposure at Default (Marginal) / ((1 + annual interest rate /100))^(6/12) Stage 2 Expected Loss ((Portfolios Model NIFC 16) =(Probability of Default (Marginal) x Loss Given Default Marginal x Exposure at Default (Marginal) / ((1 + annual interest rate /100))^(12*(t-1)+6 / 12) Stage 3 Expected Loss (Portfolios NIFC 16) = Probability of Default x Loss Given Default x Exposure at Default

Portfolio *	Percentage of expected loss
Commercial	0.50%
Consumer	5.10%
Mortgage	0.40%

Portfolio *	PD	LGD
Commercial	1.4%	38.1%
Consumer	7.3%	69.5%
Mortgage	2.2%	15.2%

* 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 client, 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.

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.

In calculating the economic capital, required to support the unexpected losses, the level of solvency desired by the Bank must be established, in such a way that the assigned amount covers a certain number of times the volatility of the losses, ensuring a certain credit quality for the Bank at a certain level of probability. This probability of solvency is determined using the risk rating with which it is desired to trade, so the economic capital will have to be equal to the amount necessary for this probability to be met. Furthermore, at all transaction levels and portfolios, origination models (Scorings or Ratings) have been defined and, in the case of performance models, they are for the most important portfolio, which are Credit Cards, Mortgages and Consumer Non-Revolving. These models, apart from supporting the credit decision, are linked with the probability of default stated 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 Bank, 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.

Models based on internal ratings for the calculation of Capital

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 to update the parameters in order to be applied in the capital requirement calculations were given on November 26, 2021 for Credit Card, on January 27, 2022 for Enterprises, and on November 24, 2021 for Large Enterprises, and on November 26, 2021 for the Mortgage Portfolio.

Exposure at Default

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.

$$EAD = Used\ Balance + CCF1 * Unused\ Balance + CCF2 * Limitis$$

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/client will be considered "bad" or in default when either of the following options arises:

1. 90 days have elapsed since the day of the first payment default.

2. The amount should go through a materiality filter so that the transaction/client 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.

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

Coverage and/or mitigation policies by each type of risk

The creation of real and personal guarantees, in addition to improving the credit structure of the transaction, makes it possible to reduce the estimate of the Expected Loss in order to reduce credit reserves derived from the regulatory portfolio rating.

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 collateral amount: The adjusted amount of a collateral decreases its market value to take into account the loss of value that it may suffer due to the effects of fluctuations in its market price and fluctuations in exchange rates.

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.

Internal methodologies under FRS C-16 for calculating reserves

Pursuant to official communication 121-1/14591541/2022, dated January 10, 2022, the Commission authorized the implementation plan of the Internal Methodologies for reserves and allowances based on Mexican FRS C-16 to determine the allowance for loan losses by credit risk level for BBVA's relevant portfolios as of January 2022, specifically the Credit Card portfolio, the Mortgage portfolio and the Enterprises and Large Enterprises portfolio. The foregoing, in accordance with the provisions of Article 139 Bis 3, section I, of the Regulations. Said methodology was estimated with information as of September 2019.

Calculation of the expected credit loss requires a temporary structure during the life of the transaction and is based on the following components, in accordance with the minimum requirements for own estimates of risk parameters provided for in Schedule 15 Bis:

- Probability of default (PD): An estimate of the likelihood of default over a given time horizon.

- Loss Given Default (LGD): An estimate of the loss arising in case a default. It is based on the difference between the contractual cash flows due and those that lender would expect to receive, including from any collateral.

- Exposure at Default (EAD): An estimate of exposure at a future date of default, taking into account expected changes in the exposure after the reporting date, including expected repayments and drawdowns on committed facilities (CCFs).

- Term to maturity

- Discount rate: To discount an expected loss to present value at the reporting date using the annual interest rate of the transaction, which should be determined in accordance with the original terms and conditions of the contract.

- Prepayment rate: For some portfolios, the contractual future cash flows of the loans are considered.

The procedures for estimating the probability of default, loss given default and exposure at default, for appropriately assigning and modifying the level of credit risk of exposures are consistent and in accordance with the criteria for recognizing the level of credit risk of a borrower, in stages 1, 2 or 3, including prospective scenarios.

Expected credit losses will be assessed for one of the two time horizons, depending on whether the borrower's credit risk has increased significantly since origination. If it has increased (step 2), expected credit losses will be calculated over the life of the asset. If not, provisions will be based on the 12-month expected credit losses. Expected credit losses on impaired assets (step 3) will be expected credit losses over the life of the asset.

Description of the portfolios with internal methodologies

Below is a description of the credit card and mortgage portfolios rated under internal models:

Enterprises and Large Enterprises December 2022

Actual Risk Rating	Available	Balance	Exposure to default	Weighted average LGD	Risk weighting	Non-financial collateral exposure	Financial collateral exposure
A1	$ 100,875	$ 481,342	$ 519,170	37.56%	0.50%	$ 233,070	$ 7,622
A2	1,054	2,822	3,418	39.26%	4.03%	1,893	3
B1	73	3,637	3,643	29.24%	6.54%	8,079	363
B2	277	1,892	1,954	43.29%	7.29%	350	11
B3	213	2,580	2,617	59.97%	8.07%	533	0
C1	241	5,187	5,294	34.09%	8.47%	21,484	42
C2	35	1,566	1,578	30.80%	12.60%	2,281	0
D	544	5,490	5,718	38.64%	14.74%	3,659	19
E	1	4,647	4,648	70.39%	96.97%	3,995	18
Total	$ 103,313	$ 509,163	$ 548,040	37.88%	1.70%	$ 275,344	$ 8,078

* Average weighted percentage

Below is a description of the credit card and mortgage portfolio rated under internal models:

Credit Cards December 2022

Actual Risk Rating	Available	Balance	Exposure to default	Weighted average LGD	Risk weighting
A1	$ 298,273	$ 79,995	$ 136,982	72.90%	3.80%
A2	10,841	16,877	19,879	74.80%	9.60%
B1	3,455	9,581	10,737	75.00%	12.20%
B2	2,161	7,850	8,654	75.50%	14.40%
B3	1,769	7,638	8,341	75.50%	17.50%
C1	1,795	11,806	12,612	76.30%	22.40%
C2	510	7,676	7,979	76.10%	35.10%
D	18	4,048	4,054	74.50%	83.40%
E	34	2,441	2,448	82.50%	100.00%
Total	$ 318,856	$ 147,912	$ 211,686	73.89%	10.66%

			Mortgage December 2022			
Actual Risk Rating	Balance	Exposure to default	Weighted average LGD	Risk weighting	Current exposure	Expired exposure
A1	274,746	274,746	15.10%	0.60%	274,746	0
A2	3,852	3,852	16.20%	4.60%	3,852	0
B1	4,700	4,700	15.10%	6.50%	4,700	0
B2	5,591	5,591	16.50%	8.40%	5,591	0
B3	1,847	1,847	16.10%	12.70%	1,847	0
C1	6,675	6,675	15.90%	18.10%	6,665	11
C2	4,657	4,657	16.20%	36.40%	4,417	240
D	8,075	8,075	26.90%	86.40%	2,175	5,900
E	673	673	46.90%	100.00%	0	672
Total	$ 310,816	$ 310,816	15.58%	4.30%	$ 303,993	$ 6,823

* Current exposure includes stage 1 and stage 2

* Average weighted percentage

Analysis of estimated losses under FRS C-16 internal methodologies

"BBVA will be able to compare the estimated losses against the actual results during the period of application of the Internal Reserves Methodology based on FRS C-16, based on the figures for the closing of January 2023, considering that the application of these methodologies began in January 2022 and, at a minimum, a period that may not be less than 12 months must be included for this comparison, which allows a significant evaluation of the results of the internal qualification processes in each portfolio. The information will be disclosed within the three months immediately following the date corresponding to the losses."

Scoring

Scoring provides analysis and assessment tools that allow setting a credit rating with a product focus for retail portfolios, based on data and criteria that are homogeneous for the Bank. There are two types of Scoring:

Origination scoring, obtained at the time of contracting, based on proprietary information of the transaction and information requested from the client, generates a score for each transaction.

Behavioral Scoring, obtained on a monthly basis, based on payment behavior with the Institution. This model, used to assign scores to each transaction, is easy to understand, stable and allows the expert to use it in decision-making.

Profitability measurement

In addition to calculating capital requirements for credit risk, the Bank uses internal estimates to measure profitability of transactions waiting acceptance and stock transactions. With respect to loans made to Enterprises, Large Enterprises, IFIs, States and Sovereign Entities, Profitability and Added Economic Benefit indicators are calculated during the client evaluation process.

The Institution uses two methodologies to measure loan portfolio profitability. One involves measuring profitability based on the regulatory capital calculated according to risk-weighted assets (RoRC), while the other measures profitability in connection with economic capital (RAROEC).

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 based on cross-currency correlation and volatility effects, 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 items 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.

As of December 31, 2022, the sensitivity of Economic Value and Sensitivity of Financial Margin +/- 100 bps and aggregated are presented below:

Note: Figures from the Structural Balance without the portfolio of Commitments with employees

	Estimated Economic Value Sensitivity (EVS)			
Portfolio	(100) bps	+100 bps	Aggregate	Red Flag
Mexican pesos	$ 7,459	$ (7,234)	$ (9,681)	
Foreign currency	(3,011)	2,770	(3,806)	
Total	$ 4,448	$ (4,464)		
Total, aggregate			$ (9,202)	77%

	12-Month Projection of Financial Margin Sensitivity (FMS)			
Portfolio	(100) bps	+100 bps	Aggregate	Red Flag
Mexican pesos	(4,779)	4,779	(6,204)	
Foreign currency	(2,110)	2,070	(2,647)	
Total	(6,889)	6,849		
Total, aggregate			(7,502)	59%

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

Portfolio	Red Flag EVS	Red Flag FMS
Total	76.72%	58.66%

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

Portfolio	Red Flag EVS	Red Flag FMS
Total	76.69%	62.91%

Market, Liquidity and Operational Risks

Market Risk

Regarding 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.

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.

	3Q 2022	4Q 2022
Value at risk, trade securities:		
1 day VaR	$ 158	$ 119
10 days VaR	510	387
Total	$ 668	$ 506

	1 day VaR	10 days VaR
Value at risk, trade securities:		
Fixed Income	$ 104	$ 339
Variable Income	3	9
Changes	26	83
Vega	9	31

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.

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: (a) Self-financing through the LtSCD ratio (Loan to Stable Customer Deposits) that measures the maximum relationship of the financing of the net credit investment with stable client deposits); (b) financing structure diversification through a maximum amount of Short-Term (FCP); and (c) 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. These metrics are listed below.

	MXN	UDS (MXN Equivalent)	Total
Quarterly			
	LtSCD	25%	
	FCP 12m	294,335	MXN Million
	CB 30d	151%	
Annual			
	LtSCD	27%	
	FCP 12m	289,649	MXN Million
	CB 30d	141%	

(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 the Central Bank, operating rules of the payment systems, risk diversification in the performance of liability operation specified by the Banking Regulations, among others.

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 31, 2022 by maturity and liquidity gaps are detailed below.

MXN in millions	Demand	30 days	6 months	1 year	More than 1 year	No maturity date	Total
Cash at hand	$ 275,158	$ -	$ -	$ -	$ -	$ -	$ 275,158
Loan portfolio	-	113,553	257,999	119,669	1,024,956	-	1,516,177
Investments in financial instruments	-	701	61,990	62,068	409,024	-	533,783
Total, assets	$ 275,158	$ 114,254	$ 319,989	$ 181,737	$ 1,433,980	$ -	$ 2,325,118
Deposits	$ -	$ 180,764	$ 60,867	$ 1,488	$ 9	$ 1,374,350	1,617,478
Issuances and subordinated obligations	-	7,484	15,467	5,599	103,002	-	131,552
Repurchase/resale agreements payable	-	181,563	618	3,095	2,488	-	187,764
Net remainder of balance	-	-	-	-	-	388,324	388,324
Total, liabilities	$ -	$ 369,811	$ 76,952	$ 10,182	$ 105,499	$ 1,762,674	$ 2,325,118
Off-balance	$ -	$ 478	$ (2,226)	$ (7,076)	$ (16,158)	$ -	$ (24,982)
Liquidity gaps	275,158	(255,079)	240,811	164,480	1,312,323	(1,762,674)	(24,982)
Cumulative gaps	$ 275,158	$ 20,079	$ 260,889	$ 425,369	$ 1,737,692	$ (24,982)	$ -

* 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 $25,541. The Institution also has interest rates and foreign currency swaps with a nominal of $10,132.

Qualitative information

(a) 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 Institution's management of liquidity risk 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 Institution's liquidity risk limits scheme.

- 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.

(b) 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.

(c) Liquidity risk mitigation techniques used by the Bank.

The Bank's 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 respect 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.

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.

(d) 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.

(e) 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.

In accordance with the reporting requirements, specified in Schedule 5 of the General Regulations on Liquidity Requirements for Commercial Banks, the following is BBVA México's Liquidity Coverage Ratio Disclosure Form relating to the fourth quarter of 2022.

Pursuant to Chapter 3, Article 8, of the Regulations, Financiera Ayudamos, S. A. de C. V. is consolidated in accordance with its nature, as part of the Entities Subject to Consolidation.

Liquidity Coverage Ratio	Unweighted amount	Weighted amount
Computable Liquid Assets		
Total, computable liquid assets	$ -	$ 540,180
Cash outflows:		
Stable financing	610,461	30,523
Less stable financing	246,138	24,614
Unsecured retail financing	856,599	55,137
Operational deposits	352,192	80,851
Non-operational deposits	284,320	122,428
Unsecured debt	7,458	7,458
Unsecured wholesale financing	643,970	210,737
Secured wholesale financing	-	234

Liquidity Coverage Ratio	Unweighted amount	Weighted amount
Outflows related to derivative financial instruments and other collateral requirements	27,877	19,590
Facilities and liquidity	657,337	39,180
Additional requirements	685,214	58,770
Other contractual financing obligations	98,151	16,811
Total, cash outflows	-	341,691
Cash inflows		
Cash inflows from secured transactions	62,035	-
Cash inflows from unsecured transactions	117,621	63,566
Other cash inflows	5,219	5,219
Total, cash inflows	$ 184,875	$ 68,785
Total, computable liquid assets	$ -	$ 540,180
Total, net cash outflows	-	272,906
Liquidity coverage ratio	-	197.68

(a) Calendar days in the fourth quarter of 2022 are 92 days.

(b) Main causes of the results of LCR and the evolution of their main components:

The quarterly average CCL decreases compared to the previous quarter mainly due to the decrease in liquid assets related to the payment of dividends in December and the maturity of the subordinated issuance at the end of September; In addition, an increase in net outflows related to higher deposits is shown.

Item	Weighted amount (average) 4Q-22	3Q-22	Change money	percentage
Computable liquid assets	$ 540,180	$ 555,928	$ (15,748)	(2.80)%
Outflows	341,691	336,759	4,932	1.50%
Inflows	68,784	65,419	3,365	5.10%
Net outflows	272,906	271,341	1,565	0.60%
LCR	$ 197.68	$ 205.96	$ (8.28)	(4.00)%

(c) Main changes of the LCR components in the quarter.

	2022 October	November	December
Computable liquid assets	$ 487,435	$ 543,193	$ 590,007
Outflows	326,214	347,181	351,855
Inflows	69,638	68,214	68,482
Net outflows	256,576	278,967	283,372
LCR	190.04	194.75	208.17

The monthly increase in liquid assets during 4Q22, as well as in outflows, is explained by the monthly increase in deposits. The amount of inflows does not show significant variation.

(d) Evolution of the composition of Eligible and Computable Liquid Assets:

Computable liquid assets	4Q-22	3Q-22	Change
N1 Cash and Banks	$ 256,018	$ 300,377	$ (44,359)
N1 Securities	277,082	248,931	28,151
N2 A	6,728	6,332	396
N2 B	351	287	64
Total	$ 540,179	$ 555,927	$ (15,748)

The quarterly average balance of Liquid Assets decreases compared to the average of the previous quarter, mainly in level 1 Cash and Banks, and to a lesser extent level 1 securities increase.

(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 Bank's funding structure at the end of December 2022.

Sources of financing (December 2022)	% funding structure
Customers' deposits	81.86%
Collateralized financing	10%
Negotiable instruments	4.49%
Subordinate obligations	2.00%
Money market	0.21%
Interbank	2%
Total	100.00%

(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: As of December 31, 2022, it is $15,970.

Item	4Q-22
Contingent outlay (Lookback Approach)	$ 15,970

(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.

BBVA México considers that all relevant flows are covered in the LCR metric calculation, for which reason there are no additional flows to be considered.

(i) Impact on the Ratio of the incorporation of the Entities Subject to Consolidation, as well as the outflows derived from financial support to entities and companies that are part of the same financial group, consortium or business group that, in accordance with the Policies and Criteria, the Institution's board of directors has authorized to grant.

Impact on the Liquidity Coverage Ratio of the incorporation of the Entities Subject to Consolidation is immaterial.

Net Stable Financing Ratio (NSFR) Schedule 10

The NSFR aims to encourage institutions to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities.

In accordance with the reporting requirements specified in Schedule 10 of the General Regulations on Liquidity Requirements for Commercial Banks (Regulations), the following is BBVA Mexico's Net Stable Funding Ratio Disclosure Form for the fourth quarter of 2022, which corresponds to the average of the fourth quarter 2022 closings.

Pursuant to Chapter 3, Article 8, of the Regulations, Financiera Ayudamos, S. A. de C. V. is consolidated in accordance with its nature, as part of the Entities Subject to Consolidation.

(a) The main causes of the results of the Net Stable Funding Ratio and the evolution of its main components.

The NSFR during 4Q22 remained at similar levels to 3Q22, mainly due to the offset of the increase in the loan portfolio with new deposits, in addition to considering the entry of maturities of issuances in one-year and 6-month horizons.

NSFR Schedule 10

Amounts in MXN millions

Net Stable Funding Ratio Disclosure Form

	Individual figures – Amount not weighted by residual term					Consolidated figures – Amount not weighted by residual term				
	No maturity	< 6 months	from 6 months to one year	>= 1 year	Weighted amount	No maturity	< 6 months	from 6 months to one year	>= 1 year	Weighted amount
Items of the available stable funding fund										
Capital	$ 304,974	$ -	$ -	$ -	$ 304,974	$ 304,974	$ -	$ -	$ -	$ 304,974
Fundamental and non-fundamental core capital	$ 304,974	$ -	$ -	$ -	$ 304,974	$ 304,974	$ -	$ -	$ -	$ 304,974
Other equity instruments	-	-	-	-	-	-	-	-	-	-
Retail deposits	-	916,416	1,108	5	858,536	-	916,416	1,108	5	858,536
Stable deposits	-	654,491	715	3	622,448	-	654,491	715	3	622,448
Less stable deposits	-	261,925	393	2	236,089	-	261,925	393	2	236,089
Wholesale financing	-	903,907	8,734	89,022	451,396	-	903,907	8,734	89,022	451,396
Operational deposits	-	15,251	-	-	7,625	-	15,251	-	-	7,625
Other wholesale financing	-	888,656	8,734	89,022	443,771	-	888,656	8,734	89,022	443,771
Interdependent liabilities	-	2,506	1,079	9,980	-	-	2,506	1,079	9,980	-
Other liabilities	11,636	125,164	-	67,168	67,168	11,636	125,164	-	67,168	67,168
Derivative liabilities for Net Funding Ratio purposes		-	-	-	Not applicable	Not applicable	-	-	-	Not applicable
All liabilities and shareholders' equity not in previous categories	11,636	125,164	-	67,168	67,168	11,636	125,164	-	67,168	67,168
Total, del Available Stable Financing Amount					1,682,074					1,682,074
Total liquid assets eligible for Net Financing Ratio purposes					31,297					31,297
Deposits with other institutions for operating purposes	-	4,401	-	-	2,200	-	4,401	-	-	2,200
Current loans and securities	3,345	376,572	126,963	983,757	1,033,417	3,345	376,572	126,963	983,757	1,033,417
Secured financing granted to financial entities with Level 1 eligible liquid assets.	-	40,946	-	-	4,095	-	40,946	-	-	4,095
Secured financing granted to financial entities with eligible liquid assets other than Level 1	-	20,238	3,119	7,333	11,928	-	20,238	3,119	7,333	11,928
Secured financing granted to counterparties other than financial entities that:	-	295,350	102,720	695,005	770,789	-	295,350	102,720	695,005	770,789

	Individual figures Amount not weighted by residual term					Consolidated figures Amount not weighted by residual term				
	No maturity	< 6 months	from 6 months to one year	>= 1 year	Weighted amount	No maturity	< 6 months	from 6 months to one year	>= 1 year	Weighted amount
have a credit risk weight of less than or equal to 35% according to Basel II standardized method for credit risk	-	-	-	-	-	-	-	-	-	-
Mortgage loans (current) that:	-	18,588	20,924	277,482	239,590	-	18,588	20,924	277,482	239,590
They have a credit risk weighting less than or equal to 35% according to the standard method established in the Regulations.	-	-	-	-	-	-	-	-	-	-
Debt and equity securities other than Eligible Liquid Assets (other than those in default)	3,345	1,449	200	3,937	7,016	3,345	1,449	200	3,937	7,016
Interdependent assets	-	-	-	-	-	-	-	-	-	-
Other assets	105,842	313,987	3,764	48,989	172,366	105,842	313,987	3,764	48,989	172,366
Commodities traded physically, including gold.	-	-	-	-	-	-	-	-	-	-
Initial margin provided on derivative transactions and contributions to central counterparty loss absorption fund	Not applicable	10,654	-	-	9,056	Not applicable	10,654	-	-	9,056
Derivative assets for Net Stable Funding Ratio purposes	Not applicable	-	-	.	-	Not applicable	-	-	-	-
Derivative liabilities for purposes of the Net Stable Funding Ratio before deduction for the variation in the initial margin.	Not applicable	-	-	-	3,232	Not applicable	-	-	-	3,232
All assets and operations not included in the previous categories.	105,842	303,333	3,764	48,989	160,078	105,842	303,333	3,764	48,989	160,078
Off-balance transactions	-	157,161	42,195	544,377	9,968	-	157,161	42,195	544,377	9,968
Total Stable Funding Amount Required	Not applicable				$ 1,249					$ 1,249
Net Stable Funding Ratio (%)	Not applicable				$ 134.65					$ 134.65

(b) Changes of the main components within the reporting quarter.

Main changes in the NSFR for the fourth quarter of 2022 relate to the growth of the credit portfolio and wholesale financing.

(c) The evolution of the composition of the Available Stable Financing Amount and the Required Stable Financing Amount.

Available Stable Financing Amount increases due to growth in total deposits. The Required Financing Amount increases due to an increase in the balance of the credits.

(d) The impact on the Net Stable Funding Ratio of the incorporation of entities subject to consolidation.

The impact on the Net Stable Funding Ratio of the incorporation of Entities Subject to Consolidation is immaterial.

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."

Operational risk materializes in losses caused as a result of: human errors; inadequate or flawed internal processes; improper conduct with clients, in the markets or against the entity; money laundering and terrorist financing; failures, interruptions or deficiencies of systems or communications; theft, loss or misuse of information, and deterioration of its quality; internal or external fraud including, in any event, those derived from cyberattacks; theft or physical damage to assets or people; legal risks, risks derived from the management of the workforce and occupational health, and inadequate service provided by suppliers; as well as damages derived from extreme weather events, pandemics and other natural disasters.

BBVA operational risk management includes those derived from compliance and conduct risk and money laundering and terrorist financing and excludes strategic and/or business risk and reputational risk. However, the management of reputational risk, entrusted to the Responsible Business unit, will be done in coordination with that of operational risks to the extent that it occurs as a result of operational events.

Operational risk is integrated into the Institution's risk structure, which has established and maintains robust internal models that provide timely information on the materialization of operational risk events.

Operational risk is measured by the Portfolio Management, Data & Reporting Unit, which is independent from the Market Risk and Credit Risk units, as well as from the Audit, Regulation and Internal Control units.

Losses derived from operational risk recorded in 2022 were $1,822, mainly due to operational items related to tax payments (surcharges). The monthly average of losses derived from operational risk recorded in 4Q-22 was $510, highlighting events related to tax payments, lawsuits 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 Bank'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 event of risks have not materialized in the form of events in the past. This quantification is based on two components: frequency of occurrence and monetary impact in case of occurrence.

Mitigation. At least for manageable risks (critical), mitigation and control that contribute to their reduction are identified, documented and tested, and the residual risk is calculated based on their effectiveness.

Monitoring. The Institution promotes continuous monitoring, by the Areas, of the proper functioning and effectiveness of its control environment, and must take into consideration, among other elements, the evolution of the management indicators defined for the Area, the events and losses experienced, as well as the results of the activity of the second line of defense, internal audit, supervisors or external auditors.

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 Bank considers that the main factors that influence legal risk are: degree of non-compliance with regulation; types of judicial process in which it is involved; amount demanded and probability of unfavorable resolution.

The Institution has an integrated internal control and operational risk methodology. This methodology makes it possible to identify risks in the organizational areas, assess the risks identified to prioritize/determine which are critical/manageable risks, define and implement mitigation and control measures for critical/manageable risks, determine the residual risk (risk assessment after the implementation of controls) and identify weaknesses in the control model.

3) General operational risk model

The operational risk management framework defined for the Institution includes a structure based on the three lines of defense model with a clear delimitation of responsibilities, policies and procedures common to the entire Institution. For its operation, it has systems to identify, measure, monitor, control and mitigate operational risks and losses, as well as tools and methodologies for the quantification of 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 (Risk Control Assurers (RCAs)) 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

i) *Non-Financial Risks Unit*

ii) *Risk Control Specialists (RCSs)*

iii) *Responsible business*

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.

Internal Comptroller Function

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.

Responsible Business is responsible for the management of Reputational Risk, in coordination with the Group's internal control model in those cases in which the 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 Bank 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 (RCAs) in coordination with Non-Financial Risks, and who are responsible for implementing the model daily at the business areas. Thus, the Bank 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 Bank has tools in place to cover the qualitative and quantitative aspects of operational risk:

- Operational Risk Management Tool – The MIGRO (*Marco Integral para la Gestión del Riesgo Operacional*) 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 (*Sistema Integrado de Riesgo Operacional*). To ensure reliability it receives the information directly from accounting by automatic interfaces in 95% of the cases.

4) Governance Model

Each Area's management of its operational risks is channeled through the Area's internal Control Supervision Committees, in which its Management analyzes the situation of its control environment and promotes and monitors the necessary mitigation measures to address the weaknesses observed. In this forum, the Risk Control Specialists contrast 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 by 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 Bank 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:

Business lines	% applicable to each business line
Corporate finance	18
Trading and sales	18
Retail banking	12
Commercial banking	15
Payments and settlements	18
Agency services	15
Asset management	12
Retail brokerage	12

The general objective of the risk management policies is to avoid significant losses derived from exposure to the Bank's risks, which are demonstrated by the levels of the financial indicators disclosed in note 39, which reflect the Bank's financial stability.

(38) Financial indicators (unaudited)-

As of December 31, 2022, according to Article 182 of the Regulations, the Group's financial indicators are as follows:

	2022
Delinquency ratio	1.58%
Hedge ratio of portfolio of Stage 3 loan portfolio	207.93%
Operating efficiency	2.41%
ROE	25.77%
ROA	2.91%
Capitalization ratio, credit, market and operational risk (Bank)	19.19%
Core capital 1 on credit, market and operational risk (Bank)	16.83%
Liquidity	92.41%
Net adjusted interest margin (MIN) /Average Productive Assets	6.38%

(39) Ratings-

As of December 31, 2022, the ratings assigned to the Group are as follows:

	Global Scale M. E.		Domestic Scale		
Bank					
Standard & Poor's	BBB	A-2	mxAAA	mxA-1+	Stable
Moody's	Baa1	P-2	AAA.mx	ML A-1.mx	Stable
Fitch	BBB	F2	AAA(mex)	F1 + (mex)	Stable
Casa de Bolsa BBVA México					
Moody's	N/A	N/A	AAA.mx	ML A-1.mx	Stable
Fitch	N/A	N/A	AAA(mex)	F1 + (mex)	Stable
BBVA Seguros México					
Fitch	N/A	N/A	AAA(mex)	N/A	Stable
BBVA Pensiones México					
Fitch	N/A	N/A	AAA(mex)	N/A	Stable
BBVA Seguros Salud México					
Fitch	N/A	N/A	AAA(mex)	N/A	Stable

(40) Commitments and contingent liabilities-

Contingencies-

As of December 31, 2022, there are claims against the Group in ordinary civil and commercial actions, as well as contingencies and 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, given that, as of December 31, 2022, the Group has weighted the impacts of each one of them and has recorded a reserve for these matters under "Sundry creditors and other accounts payable" for $2,250.

As of December 31, 2022, there are claims against the Group 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 Group's financial condition, given that, as of December 31, 2022, the Group has weighted the impacts of each claim and has recorded a reserve for these labor matters of $1,262.

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.

(41) Recognition of the effect of applying 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 Equilibrium Interest Rate, known as TIIE, used in Mexico, 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 intention 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 intention 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.

Mexico's Central Bank published, in the fourth quarter of 2021, a document on the 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 RFRs (risk-free rates) is recommended in a new contract entered into after December 31, 2021.

Also, Mexico's 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:

- Regulations applicable to credit institutions transactions, regulated multiple-purpose financial companies that maintain economic ties with credit institutions and the National Financial Institution for Agricultural, Rural, Forestry and Fisheries Development" contained in Circular 3/2012.

- Regulations 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.

The Commission granted confirmation of criteria to the Association of Banks of Mexico (ABM) 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 rate of interbank offer, which are originated by the IBOR rate reform, should not be considered as a restructuring in accordance with B-6 of Loan Portfolio, provided the following is met:

1. The interest rate is modified solely and exclusively as a direct consequence of the IBOR reform, and

2. Cash flows similar 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, together with Grupo Financiero BBVA S. A., launched a transition process since the end of 2019.

To address the project, a Coordination Committee was established at the management level, 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: adapt 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 the maturity of which 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 2022-2023; 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 referenced 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.

Quantitative Disclosures

The interest rates to which the BBVA México 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, 2022
USD	USD Libor	SOFR	In process
USD	USD Libor	FED FUND	Completed
GBP	GBP Libor	SONIA	NA
CHF	CHF Libor	SARON	NA
JPY	YEN Libor	TONAR	NA
EUR	EURIBOR	EURIBOR	Completed
EUR	EONIA	ESTR	Completed

NA = Not Applicable (currently there are no positions in force referenced to these currencies/rates)

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.

- Variable rate loans with clients: USD Libor
- Investments in financial instruments at floating rates: 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)
- Demand checking accounts with interest (USD Libor, Euribor)

As of December 31, 2022, the Institution maintains the following exposures related to IBOR rates with respect to loans and financial assets:

	Figures as of December 2022
	Notional
Collateral and credits	$ 45,449
Collateral received:	1,499
ESTR (replaces EONIA)	338
FED FUNDS**	1,161
Demand loans:	43,950
EURIBOR*	2,341
FED FUNDS**	41,609
Derivatives	2,296,420
Rates	2,296,420
EONIA	-
ESTR	137,407
EURIBOR*	164,670
FED FUNDS**	130,880
LIBOR USD	1,338,877
SOFR	524,586
Loans	151,160

	Figures as of December 2022
	Notional
Loans - Bilateral	98,078
EURIBOR*	70
LIBOR USD	61,318
SOFR	36,690
Loans - Syndicated	53,082
EURIBOR*	1,045
LIBOR USD	32,640
SOFR	19,397
Total, general	$ 2,493,029

* The EURIBOR reference rate 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, 2022, is as shown below:

	Nominal Amount 2022
Fair Value Hedge	3,443
USD	2,737
EUR	659
GBP	47
Cash Flow Hedge	907
USD	590
EUR	317
GBP	-

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 below.

- 525 loan agreements at a floating rate
- 3,130 derivatives transactions
- 0 remunerated deposit accounts (checkbooks and deposits). All checkbooks have already been migrated in 2022 from Libor USD to Fed Funds (32,862 checkbooks).

	USD Libor	
December 31, 2022	Nominal referenced to USD Libor	Nominal pending adjustment due to IBOR reform (Maturity > Jun23)
- Demand loans (all transactions have been migrated)	-	-
- Derivatives	1,338,877	1,259,537
- Loans	93,958	80,052

Migration status

During 2020 and 2022, 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.

	Transactions	Currency	Date
Transition from LiBOR benchmark to FED FUNDS in Checkbooks	32,519	USD	February 2022

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 involve the new RFR reference interest rates 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 unit. Risks 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.

- Both the hedging derivatives and the primary positions with a Libor reference 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, have been agreed to be settled in cash, offsetting its effects in the income statement, we do not expect any impact on results, 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.

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.

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

(42) Regulatory pronouncements recently issued -

I. Improvements to 2023 FRSs

In November 2022, the CINIF issued "Improvements to 2023 FRS," which contains specific amendments to some existing FRS. The main improvements that generate accounting changes are the following:

FRS B-11 "Disposal of long-lived assets and discontinued operations." It clarifies which is the recognition that would be generated by the difference that may exist between the amount payable to owners and the value of such long-lived assets, which should be affected to retained earnings, in the case of distributions of earnings to shareholders. This improvement is effective for fiscal years beginning on or after January 1, 2023, allowing its early application for fiscal year 2022.

The accounting changes that arise must be recognized prospectively as provided by Mexican FRS B-1 "Accounting changes and corrections of errors."

Mexican FRS B-15 "Foreign currency conversion" – As a result of the incorporation of 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 considers it convenient to make some clarifications to ensure a clear understanding and application of the practical solution and is effective for fiscal years beginning on or after January 1, 2023, allowing its early application for fiscal year 2022. The accounting changes that arise must be recognized prospectively as provided by Mexican FRS B-1 "Accounting changes and corrections of errors."

The main improvements to FRS that do not generate accounting changes are as follows:

FRS B-10 "Effects of Inflation." This improvement considers eliminating the reference to the annual average of 8% to consider that the economic environment is inflationary, when in fact what should be taken into account is whether the cumulative inflation of the three previous fiscal years is equal to or greater than 26%, in order not to generate confusion for its determination.

The Group's Management estimates that the effects of adopting the improvements to the FRSs shall not be material for the consolidated financial statements as a whole.

II. Amortization of deferred items of loan portfolio with effective interest rate

Through publication in the Official Gazette on September 23, 2021, the National Banking and Securities Commission announced the option so that during the year 2022, in determining the amortized cost referred to in criterion B-6 "Loan portfolio," the institutions could continue to recognize the interest accrued on the loan portfolio using the contractual interest rate, as well as the straight-line method for the recognition of fees charged and transaction costs, and must disclose such circumstance in the quarterly and annual financial statements for the year 2022. As stated in Note 3, Management opted for such option and notified the Commission in writing on December 1, 2021.

Beginning January 1, 2023, the subsequent recognition of the amortized cost of loan agreements, transaction costs, fees, other items collected in advance, as well as items resulting from renegotiation transactions will be amortized by using the Effective Interest Rate (EIR).

In compliance with the provisions of the Regulations, we detail as part of our disclosures in the notes to the financial statements the following:

A. The adoption mechanics were executed based on the Accounting Standards Implementation Process, through the creation of projects and complying with the following phases in the fiscal years, from the publication of the first drafts of the criteria:

- Regulatory Analysis. - Delimitation of impacts and scope.
- GAP analysis. - Analysis and confirmation of impacts with intervening areas.
- Master Plan. - Concentration of conceptual impacts, actions and responsible persons for implementing all affected areas and the involvement of senior management.
- Execution of lines of action - Design and solution, implementation and monitoring.

Said project included definitions of accounting policies, processes for the implementation of standards that have implications both in the consolidated financial statements and in operations (admission, changes in systems, management metrics, etc.) and, finally, in the process of preparing the consolidated financial statements.

B. The main changes adopted for the determination and recognition of the application of amortized cost with effective interest rate are described below:

- At initial recognition, the transaction price must be quantified, which corresponds to the net amount financed (hereinafter "NAF"), resulting from adding or subtracting the original amount of the loan, the insurance financed (if any), transaction costs, fees, commissions, interest and other items collected in advance. This transaction price is the fair value of the loan portfolio at initial recognition and is the basis for applying the effective interest method required in the calculation of the amortized cost in its subsequent recognition.

- Transaction costs include, among others, fees and commissions paid to agents, advisors and intermediaries, appraisals, investigation expenses, as well as the debtor's credit assessment, evaluation and recognition of collateral, negotiations for the loan terms, preparation and processing of loan documents and closing or cancellation of the transaction, including the proportion of employee compensation directly related to the time invested in the development of these activities.

- Transaction costs, as well as items collected in advance, will be recognized as a deferred charge or credit, as appropriate, and should be amortized against income over the life of the loan in the Statement of Comprehensive Income under financial margin, according to the Effective Interest Rate. Prior to the application of this criterion, deferred items were amortized on a straight-line basis.

- In the case of commissions charged and transaction costs related to the granting of credit cards, they should be recognized directly in income in the Statement of Comprehensive Income under financial margin, at the time the credit is granted.

- The Effective Interest Rate (EIR) is the rate that exactly discounts the estimated future cash flows to be collected over the expected life of a loan in determining its amortized cost. Its calculation considers the contractual cash flows and relative transaction costs. To determine the Effective Interest Rate, the following steps are followed:

1. Determine the amount of estimated future cash flows to be received. - By adding the principal and interest to be received according to the payment schedule of the loan, during the contractual term;

2. Determine the effective interest. - Deducting the FNA from the estimated future cash flows to be received, determined in accordance with the previous paragraph;

3. Determine the effective interest rate. - This represents the relationship between the effective interest rate and the FNA.

- When a loan is restructured in stages 1 and 2, or partially liquidated through a renewal, the gain or loss on renegotiation must be determined as follows:

1. Determine the carrying value of the loan without considering the allowance for loan losses;

2. Determine the new future cash flows on the restructured or partially renewed amount, discounted at the original Effective Interest Rate, and

3. Recognize the difference between the carrying amount and the determined future cash flows discounted at the original Effective Interest Rate as a deferred charge or credit against the gain or loss on renegotiation of loan portfolio in the statement of comprehensive income.

- The determination of the gain or loss on renegotiation is not applicable to credit cards and loans with stage 3 credit risk.

C. Implementation method. In accordance with the provisions of FRS B-1 "Accounting changes and error corrections," the implementation was carried out under the prospective method, since the adoption of the criterion represented substantial changes in the Institution's application systems and a high degree of complexity for the identification of historical information and its extraction from storage sources; as well as the processing for the reconstruction of the original amortization tables to allow us to estimate the initial cash flows, the identification of origination fees and transaction costs applicable to the contracts under the scope of the standard.

Therefore, it is identified that Management made reasonable and justifiable efforts as stated in the conceptual framework of the FRS; however, it was not possible to determine the gain or loss on the renegotiated transactions or the effect of the amortization of the deferred items with an effective interest rate instead of a straight line, which corresponds to:

● Renegotiation inventory representing 38% of total in-scope restructurings as of January 1, 2023, and

● Deferred items for customer contract origination fees representing 0.19% of the total stage 1 and 2 loan portfolio as of January 1, 2023. It is concluded that we are facing an impractical situation to calculate the initial effect; therefore, applying professional judgment, our method of implementation for this accounting criterion is prospective application.

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